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ARGENTINA

**PROGRAM TO SUPPORT THE FISCAL BALANCE
AND SOCIAL MANAGEMENT**

(AR-0271)

LOAN PROPOSAL

LOAN No. 1295/OC-AR

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ABBREVIATIONS

ANSES	Administración Nacional de Seguridad Social [National Social Security Administration]
BUB	basic universal benefit
GAAT	Grupo de Apoyo a la Asistencia Técnica del Programa [Technical Assistance Support Group]
GECCG	Grupo Ejecutivo de Coordinación y Gestión [Coordination and Management Executive Group]
JGM	Jefatura de Gabinete de Ministros [Office of the Cabinet of Ministers]
MDSyMA	Ministerio de Desarrollo Social y Medio Ambiente [Ministry of Social Development and Environment]
MTEyFRH	Ministerio de Trabajo, Empleo y Formación de Recursos Humanos [Ministry of Labor, Employment and Human Resources Training]
PEAT	Plan Estratégico de Asistencia Técnica [Strategic Technical Assistance Plan]
PFA	Pension fund administrator
PROMIN	Programa de Atención Materno-Infantil [Mother and Child Welfare Program]
SIDIF	Sistema de Datos e Informaciones Financieras del Ministerio de Economía [Financial Information System of the Ministry of Economic Affairs]
SIJP	Sistema Integrado de Jubilaciones y Pensiones [integrated retirement pensions and benefits system]
SINTyS	Sistema Nacional de Identificación Tributario y Social [national tax and social identification system]
SISFAM	Sistema Unico de Identificación y Registro de Familias Beneficiarias de Programas Sociales [master system for identification and registration of social program beneficiary families]
SOAB	special old age benefit
SPER	Secretaría de Programación Económica y Regional [Economic and Regional Programming Department]
UNPRE	Unidad de Preinversión [Preinvestment Unit]

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(AR-0271)

EXECUTIVE SUMMARY

Borrower:	The Argentine Nation	
Executing agency:	The Ministry of Economic Affairs through the Economic and Regional Programming Department	
Amount and source:	IDB (OC):	US\$400 million
	Total:	US\$400 million
Financial terms and conditions:	Amortization period:	20 years
	Grace period:	5 years
	Disbursement period:	18 months
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	dollars of the United States of America under the Single Currency Facility
Objectives:	The program will support the Argentine Nation in its efforts to maintain the fiscal balance, improve the management of social programs and help increase competitiveness in the labor market. To achieve these objectives, the program will promote institutional adjustments so that the reforms already undertaken in social security, modernization of the State, the labor market and social development can produce optimal results.	
Description:	The loan will total US\$400 million, to be disbursed in two tranches of US\$204 million and US\$196 million, respectively, with a maximum estimated interval of 18 months between the two. Annex II-1 presents the matrix of policy actions that are conditions precedent to the release of each tranche. Funds from loan 925/OC-AR (Preinvestment II) will be used to prepare the activities necessary to fulfill the conditions precedent to release of the second tranche.	
	<ol style="list-style-type: none"> 1. Social security. This component will help to improve efficiency and equity in the management of contributions and 	

benefits in the public pay-as-you-go system and the optional privately-funded system through better quality and more transparent information systems.

- a. **Conditions for the first tranche:** (i) the legal instruments and regulations must have entered into force for creating an administrative, financial and accounting information system—the Financial Information System of the Ministry of Economic Affairs (SIDIF)—in the National Social Security Administration (ANSES) to improve the management of spending, and implement the decision to periodically publish its accounting statements on income and expenditures in the national public social security system, which are to be audited by independent specialized auditors acceptable to the Bank; and (ii) proposals must be submitted to the Bank for rules to improve the information system on the performance of pension fund administrators (PFA), establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.
 - b. **Conditions for the second tranche:** (i) the ANSES administrative, financial and accounting information system must be operational; and (ii) the rules to improve the information system on the performance of PFAs must have entered into force, establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.
2. **Modernization of the State.** This component has two basic objectives: (i) to improve the administration of public agencies by developing management skills and obtaining budget performance results, with this component focusing on the areas of social security (ANSES), the labor market (Ministry of Labor, Employment and Human Resources Training—MTEyFRH), and mother and child care (Mother and Child Welfare Program – PROMIN); (ii) to raise the quality of public services through a continuous evaluation process and transparent management based on quality commitments agreed upon with the public.
 - a. **Conditions for the first tranche.** The Office of the Cabinet of Ministers (JGM) will present a model for performance-based management and prepare a model letter of commitment to citizens. At least three agreements must be signed with public service providers to carry out the corresponding pilot projects. At least three complete strategic plans must be presented,

containing indicators and goals for the pilot projects.

- b. **Conditions for the second tranche.** Reports must be submitted evaluating the performance-based management model and letters of commitment to citizens in the pilot projects carried out and rules for applying them to other public agencies. Signed performance-based management agreements and letters of commitment must be submitted in one decentralized unit of ANSES, one PROMIN unit and in the MTEyFRH, which will design a conceptual model for implementation of the letter of commitment to citizens and the performance-based management system with a view to its eventual implementation throughout the network of decentralized public and private offices providing assistance to the unemployed.
3. **Labor market.** This component will support actions to promote continuity in the process of modernizing the labor market and reducing the high degree of labor contract rigidity, with a view to lowering labor costs for employers, raising employment rates, and reducing informal and unstable jobs. The specific objectives include: (i) reducing the cost of registering labor contracts, with the consequent reduction in the number of unregistered workers; (ii) lowering collective bargaining costs by introducing mechanisms for conciliation and arbitration; and (iii) improving the quality of placement, training, workforce reentry and support services for the unemployed.
- c. **Conditions for the first tranche:** (i) recognition of passage of the Labor Reform Act (Law 25250) which addresses the objectives described in the preceding paragraph; (ii) presentation of the preliminary design for a unified system for registering labor contracts (master labor contract register); and (iii) presentation of the preliminary design for a system of unified offices to deliver placement, training, workforce reentry and support services for the unemployed (network of employment offices).
 - d. **Conditions for the second tranche:** (i) the unified system for registering labor contracts (master labor contract register) is operating on a satisfactory basis; and (ii) implementation of the network of employment offices in at least four jurisdictions.
4. **Social development.** This component includes actions to: (i) improve management and avoid duplication in the host of national social programs that have direct beneficiaries, by

coordinating and integrating the actions of the institutions in charge, targeting their programs to people living in extreme poverty, preserving the most cost-effective actions and promoting a commitment by poor families to try to overcome their situations; and (ii) develop a methodology to evaluate the Solidarity Program which will measure its impact on the beneficiary families and the extent to which it targets people living in extreme poverty and its potential for financial sustainability, prior to introducing the program on a large scale.

- e. **Conditions for the first tranche:** (i) presentation of regulations for certification of the progress made in integrating national social programs that have direct beneficiaries and that a provision has been included in the 2001 budget to consolidate those programs, as a frame of reference for establishing general guidelines for their coordination and integration; (ii) presentation of a detailed work plan, including actions, goals, benchmarks, and a duly-substantiated budget that will make it possible to arrive at the second tranche with the National Tax and Social Identification System (SINTyS) in operation, able to respond to consultations by national government agencies on the eligibility of social program beneficiaries; and (iii) presentation of a detailed work plan, including actions, goals and benchmarks that will make it possible to arrive at the second tranche with a methodology for evaluating the Solidarity Program ready to be applied. Implementation of the work plan will be approved under an administrative decision issued by the Ministry of Social Development and Environment (MDSyMA).
- f. **Conditions for the second tranche:** (i) presentation of evidence that the SINTyS is operational and able to respond to consultations by national government agencies on the eligibility of social program beneficiaries; and (ii) presentation of the methodology for evaluating the Solidarity Program and the administrative decision allocating budgetary funds to apply the program in at least four localities under the pilot project, prior to extending the program to the entire universe of beneficiary families.

Up to US\$10 million from loan 925/OC-AR (Preinvestment II) will be made available to carry out a strategic technical assistance plan (PEAT) which will prepare the studies, evaluations and proposals for pilot projects to facilitate the actions necessary for release of the second tranche for the four program components.

The Bank's country and sector strategy:	The program will help to implement the Bank's strategy for Argentina, since it will: (i) consolidate the reforms being implemented in the labor and social security areas; (ii) help to boost competitiveness by reducing the cost of labor contract registration; and (iii) help to reduce poverty and streamline social spending by implementing a methodology for evaluating social programs that will improve resource targeting and avoid overlapping.
Environmental and social review:	The reform programs included in this project comply with the country's environmental legislation and procedures. The program focuses on policy actions that do not entail any civil works or other activities that could have a direct environmental impact (see paragraph 4.4).
Benefits:	The program will contribute to the fiscal balance through measures to streamline spending and increase fiscal discipline in managing the central government's social policies. It will help to reduce labor costs and lay the foundations for increased competitiveness on domestic and external markets as the country returns to the path of economic growth.
Risks:	Achieving the goals of fiscal balance and social program implementation in the short term may depend on the moderate pace of economic growth currently being achieved, which is assumed will be maintained for the measures proposed in this program.
Special contractual clauses:	The following are conditions precedent to release of the tranches: (i) maintenance of a macroeconomic framework consistent with the requirements for program execution; (ii) compliance with the policy actions mentioned above for the two tranches, based on the benchmarks indicated in Annex III-1; and (iii) opening of a special bank account to manage the loan proceeds. Conditions precedent to the first disbursement are: (i) amendment of the contract for loan 925/OC-AR to finance the technical assistance activities included in the PEAT; (ii) presentation of the preliminary terms of reference for the activities to be carried out under the technical-assistance component of the program; (iii) establishment of the Coordination and Management Executive Group (GECG) and the Technical Assistance Support Group (GAAT) and appointment of their staff; (iv) evidence that the government has included in its 2001 budget bill all the funds to finance PEAT, which will be executed by the Preinvestment Unit (UNPRE); and (v) evidence that funds are available in the 2001 budget bill to enable the pertinent sector ministries and agencies to take the steps necessary to fulfill the conditions precedent to the first and second tranches (see paragraphs 3.15 to 3.17).

Poverty-targeting and social sector classification:	This operation does not qualify as a social equity enhancing project, as described in the key objectives for the Bank's activity set forth in the Report on the Eighth General Increase in Resources (document AB-1704) (see paragraph 4.5).
Exceptions to Bank policy:	None
Procurement:	The fast-disbursing funds from the loan may be used to finance the added cost in foreign exchange of eligible imports from the Bank's member countries. In that case the Bank's procedures for sector loans will be followed, which do not require international competitive bidding. The funds will be disbursed when requested by the borrower and evidence is presented that all the contractual conditions have been fulfilled.

I. FRAME OF REFERENCE

A. Recent economic performance

- 1.1 Between the fourth quarter of 1998 and the end of 1999, Argentina experienced a period of economic recession. Devaluation of the Brazilian currency, the unfavorable behavior of commodity export prices and the growing strength of the dollar against European currencies and the yen contributed to the slowdown in the economy, which had already begun to shrink in the second half of 1998. In the first half of 2000, industrial production grew by 2.2%, which was an improvement compared to the drop of 14.8% between June 1998 and June 1999. This moderate recovery has not helped reduce the high unemployment rates or poverty levels the country is currently experiencing.
- 1.2 In Argentina, the behavior of external accounts is essential to preserve the convertibility regime and to accelerate growth in GDP. The outlook for the balance of payments brightened in 2000 thanks to the improvement in the trade balance. In the first seven months of this year the results point to: (i) growth of 14% in exports and 1% in imports, compared to the same period in 1999; and (ii) a trade surplus of US\$1,055 million, as compared to a deficit of US\$729 million in the same period in 1999. The balance of trade is expected to post a surplus of US\$125 million by the end of 2000, compared to the deficit of US\$2,175 million in 1999. Exports have also grown faster in 2000.
- 1.3 The public deficit was US\$8,486 million in 1999, equivalent to 2.3% of GDP, and if the results for the provinces are added, the consolidated imbalance amounted to 3.6% of GDP. Performance improved in the first half of 2000, when Argentina was able to achieve the fiscal goal agreed on for the period with the International Monetary Fund. The extra income from a tax moratorium made a positive contribution to that result.
- 1.4 The new Argentine government that took office in December 1999 has undertaken a series of reforms and changes in key areas of the public administration with the short-term goals of boosting the competitiveness of the economy, promoting economic growth and employment, and reducing the fiscal deficit. Based on those objectives, the government signed a letter of intent with the IMF in February this year, whose main goals are: (i) to achieve growth of 3% in 2000 and 4% in the next three years, which will help to reduce unemployment; (ii) to promote actions to achieve a balance in the external accounts; (iii) to soften the profile of foreign debt payments; and (iv) to gradually reduce the public debt/GDP ratio, holding the public deficit to 1.6% of GDP in 2000 and achieving a balance in 2003.
- 1.5 Nonetheless, the most probable scenario for Argentina suggests growth in GDP of 1.7% in 2000, reaching 4% in 2002. There is evidence that the country will make efforts to increase investments in social areas and infrastructure, with the objective of cushioning the impact of unemployment and promoting regional integration.

- 1.6 The fiscal program announced in May 2000, which includes a bill to create an infrastructure development trust fund, the recently-passed law on support for small and medium-sized enterprises, export incentives and definition of a framework to deregulate the telecommunications industry will help to attract new investments. Steady growth in exports is expected owing to the upsurge in world trade and trade with MERCOSUR, which could lead to an increase in productivity that could improve the competitiveness of Argentine products and the country's terms of trade. This set of measures could help to push economic growth up to the desired levels.
- 1.7 In light of the situation just described, the social sector project that the government has requested from the IDB – as explained in the policy letter sent by the Ministry of Economic Affairs to the Bank (Annex III-2) – could contribute significantly to the country's economic policy goals, since it seeks to establish mechanisms to support management of the fiscal deficit to prevent it from destabilizing the Argentine economy.

B. Main problems in social program management in Argentina

- 1.8 The social sectors present institutional problems that lead to overly high levels of public spending and have a negative impact on the potential for reviving sustainable growth. The main social problems identified by the government lie in the areas of social security, modernization of the State, the labor market and social development.

1. Social security

- 1.9 The main challenges in this field are to generate and organize the information necessary to make adjustments in the two pillars of the system (public and private), improving their financial management, coverage and equity, and promoting measures to boost the competitiveness and efficiency of the privately-funded system.
- 1.10 In November 2000, the government announced a package of legal measures for changes in both the public and private systems. The main measures contained in the packages are: (i) creation of a special noncontributory benefit of up to US\$100 a month for persons over the age of 70 living below the poverty line, who do not receive other benefits from the social security system; (ii) elimination of the monthly basic universal benefit and creation of a supplementary pension for retirees with monthly incomes of up to US\$800, on a sliding scale depending on income level; (iii) a guarantee that no retiree who contributes according to the rules of the public or private system will earn a retirement benefit of less than US\$300; (iv) elimination of the public pay-as-you-go system for new workers; (v) gradual equalization of the ages of men and women for eligibility for the comprehensive retirement benefit; (vi) elimination of discretionality in readjusting the value of

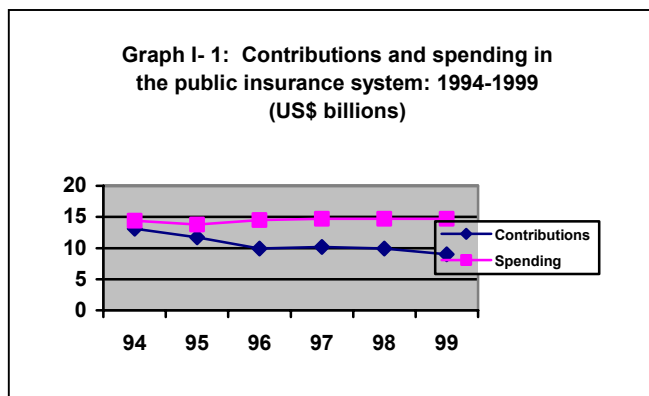
benefits by introducing an automatic adjustment mechanism; (vii) elimination of the sworn statement that is currently used to establish length of service for retirement purposes, replacing it with progressive tables for everyone; (viii) compulsory enrolment of undecided workers in the pension fund administrator (PFA) that has lowest administrative costs, replacing the current draw mechanism; (ix) issuance of rules obliging the Office of the Superintendent of PFAs to justify potential mergers of administrators to the Competition Protection Board; and (x) establishment of regulations and active supervision of the life annuity market.

- 1.11 The government requested support from the Bank for future implementation and possible refinement of some of the measures set forth in the package, by developing: (i) information systems to help improve transparency and the degree of control over costs in the pay-as-you-go pension subsystem; (ii) a public information strategy targeting PFA users (especially with respect to administrative costs and fund returns) to help them in the decision-making process of selecting a PFA, and reducing the number of undecided users; and (iii) proposed regulations to allow improvements in the system and implementation of such measures as streamlining special differential pension regimes, the criteria for adjustments in the public pension system and devising disability insurance tables for PFA members. The studies on which the proposed regulations are based will not be conditions for the proposed loan, but would be supported through a technical assistance component.

a. Increasing transparency in ANSES

- 1.12 The public system is managed by the National Social Security Administration (ANSES), which was created in 1992 and operates as the sole provider of public social security benefits. In addition to pensions, ANSES provides unemployment insurance benefits, family allowances, noncontributory pensions and is involved in the field of social works which provide health care services for the insured. Since 1997, its responsibility for managing resources and controlling evasion in social security system was taken over by the Federal Public Income Administration (AFIP) which reports to the Ministry of Economic Affairs, with ANSES being responsible only for the administration of benefits.

- 1.13 Since 1994, the public pay-as-you go system has been marked by a sharp imbalance between income and spending because financial commitments to pay future benefits under the old system were maintained, while company contributions were reduced and workers migrated



to the privately-funded system. The public system was financed with 16% of the nominal wage paid by employers in 1994. To improve competitiveness, the government has reduced employer contributions, depending on the size of the company and the sector. The average contribution was reduced to 12% in 1997 and 9% in 2000, which means that the system needs additional financing (see Graph I-1), which has been provided out of general taxes, representing a fiscal effort equivalent to 40% of Argentina's overall public deficit.

- 1.14 The system's current needs for financing stem from four factors. (i) *The increase in the transition costs from the old to the new systems.* With the creation of the PFAs in 1994, part of the income that had previously gone into the public system was gradually transferred to the privately-funded system, while pension costs under the old public system remained constant. There are 3.1 million pensioners under the old system and 3.4 million more to come. (ii) *The financial impact of transferring pensioners from the provincial funds to ANSES,* which meant that the federal budget had to absorb the debts and financial imbalances of the provincial systems. In 1999, income from contributions to the provincial social security systems that signed an agreement with the federal government was US\$0.8 billion while spending by ANSES on benefits for insured who were originally members of the provincial social security funds was US\$2 billion. (iii) *The drop in revenues caused by the increase in informal employment, unemployment, evasion, the reduction in employer contributions and the increase in the value of the BUB.* Of the 9.5 million members of the ANSES system in 1999, just 4.7 million were regular contributors. An estimated 4.8 million evade their contributions, although the number should be reduced by an estimated 2.3 million workers who do not have the capacity to contribute. (iv) *The financial impact of the actuarial imbalance in the system caused by the different professional categories and types of benefits,* as is the case with the special and differential plans.
- 1.15 The absence of a systematic and operational series of administrative, financial and accounting information for ANSES, based on actuarial calculations that allow for consistent projections of system income and spending, makes it difficult to manage spending on benefits and to fully understand the factors that increase the system's financial requirements. The proposed program, by seeking to increase transparency in ANSES, will develop an information system that will spell out those factors in detail, thereby helping to tighten controls over public social security spending. The support that the program will provide for introducing a master labor contract registry will also help to reduce evasion of contributions to the integrated retirement pensions and benefits system (SIJP).
- 1.16 The proposed sector program will support the creation of an administrative, financial and accounting information system to improve the management of benefits and introduce rules for their future revision. The system will be based on an actuarial model for financial and accounting projections and a model to measure the macroeconomic consistency of social security. The publication of ANSES's

audited financial statements will permit the public and companies to understand the system's strengths and weakness and lead to wider public debate on future solutions for the public pay-as-you go system.

b. Improving information for PFA users

- 1.17 The private subsystem is based on individually-funded accounts managed by pension fund administrators. The PFAs are private institutions whose operations are governed by public legislation and whose sole and exclusive objective is to manage retirement and pension funds and to grant the benefits required by law. Until 1999, it was compulsory for all workers to join a PFA, and the contribution was 11% of their wages. In 1999, contributors were once again permitted to choose between joining a PFA or contributing 11% of their salaries to the public pay-as-you go system. Prior to the reforms proposed in November 2000, all members of the private system also received the BUB, which had served as the floor for both the public and private systems since 1994.
- 1.18 The Office of the Superintendent of Pension Fund Administrators (SAFJP) is responsible for regulating the PFAs. It is an autonomous specialized agency (under the jurisdiction of the Ministry of Labor, Employment and Human Resources Training (MTEyFRH), which supervises and controls the privately-funded system.
- 1.19 The main problems in the PFA system lie in its lack of transparency and high administrative costs. Out of payroll contributions of 11%, 3.4% is used to cover administration and insurance costs and only the remaining 7.6% is used to capitalize the funds. The system does not provide beneficiaries with clear information on its administrative costs and returns, which is basic for deciding whether to join a PFA. There are no incentives or clear rules for PFAs to reduce their administrative costs and increase their profitability.
- 1.20 Although all workers eligible for the privately-funded system are required to exercise their option to decide which PFA to join within a maximum of 30 days after they sign their contracts, most fail to do so because they do not have information in the costs and returns paid by the PFAs. Seventy percent of new workers entering the market are undecided. The current mechanism for incorporating them consists of having the PFAs in the system draw their names. The mechanism does not encourage competition among the PFAs to attract new members and permits inefficient ones to survive in the market.
- 1.21 The new package of measures proposes that the mechanism for enrolling undecided workers be based on the PFA that charges the lowest commission on the taxable income of workers. The Bank understands that additional criteria could be used such as choosing the PFA with the best net returns on the funds paid by contributors or the use of compound indicators that look jointly at the results of administrative costs and net returns, for example. There is no clear understanding of what factors

individuals take into account when selecting a PFA. Accordingly, to support compliance with the second tranche of this operation, studies will be conducted to determine what information should be provided to assist individuals in making a prompt decision.

- 1.22 Improving information for users will help to improve competition among PFAs by promoting a new culture of transparency and the use of information for decision-making by members and institutions that operate the privately-funded system.

c. Preparing draft legislation to improve the system

- 1.23 The Argentine government requested support from the Bank to prepare draft legislation to improve the social security system, by means of the following measures in particular.
- 1.24 ***Rationalizing the special and differential pension plans.*** Special pension plans have been established for professional categories with special privileges, such as diplomats, legislators, magistrates, police officers, ministers, and secretaries and deputy secretaries in the national executive branch, etc. The government tried at different times to change those plans but was defeated in the courts. The differential pension plans are for people working in trades that involve risks or unhealthy conditions and entitle them to receive special benefits or early retirement. Examples include miners, taxi drivers, union delegates, longshoremen, etc. Advances in technology have substantially changed the working conditions and risk profiles of those trades. For these two groups, the Bank will support the country in performing studies and preparing proposals for rules to increase the equity between the special plans and the public and private systems, in addition to updating benefits under the differential plans, seeking to adapt them to current social and technological conditions and reduce the high costs of those benefits for the public insurance system.
- 1.25 ***Introduction of automatic adjustment in the value of benefits.*** Since 1995 when the Social Security Solidarity Act was passed, benefits have been readjusted at the discretion of the Argentine government, with no automatic adjustment criteria. In the last five years, the benefits in the public system (particularly the BUB) have risen faster than inflation, creating problems for the sustainability of the system. The intent is to reintroduce the automatic adjustments in the value of benefits that existed before 1995. The new measures propose that they be based on an average wage index prepared by the National Statistics and Censuses Institute. The methodology would be established in complementary legislation, based on studies to be conducted by the country financed as part of the present program with proceeds from loan 925/OC-AR (Preinvestment II).
- 1.26 ***Devising disability insurance tables for PFA members.*** The bill establishes that life annuity contracts must be based on minimum rules that establish: (i) the

mortality table to be used, without differentiation among beneficiaries of the same age based on gender or other criteria; (ii) the minimum guaranteed interest rate; and (iii) the methodology for calculating returns and mechanisms for transferring surpluses. The studies to be conducted to devise the disability insurance tables will also be supported by the technical cooperation funding provided under the proposed project, to be carried out with proceeds from loan 925/OC-AR (Preinvestment II).

2. Modernization of the State

- 1.27 Extensive structural changes were undertaken in the public administration between 1989 and 1999, with the passage of Laws 23696 and 23697 which permitted the use of instruments such as privatization, decentralization of services, market deregulation and downsizing. Over that period, approximately 100 public companies were privatized, particularly financial institutions, companies and public service operators. Different public services were conceded to the private sector and price and rate controls were removed. All secondary schools were decentralized to the provinces under Law 24049 of 1991 (the primary schools had been transferred in 1978), in addition to the bulk of health services. The civil service was reduced from 800,000 in 1989 to 260,000 today, including the armed forces and police, as a result of the process. Public spending is about 30% of GDP, which gives an idea of the current size of the Argentine government. The privatization of public companies and decentralization to the provinces has meant that the central government can concentrate on regulatory and oversight activities.
- 1.28 The second stage of reform of the State began in 1996 with passage of Law 24629 which was intended to modernize public sector management. The results of the reform were not encouraging, since the restructuring led to a significant rise in the number of public sector administrative units and less efficiency in the delivery of services. The transformation from a government that produced goods and services and was protectionist and interventionist to a smaller government did not lead to a new public apparatus with modern, flexible organizations and management models.
- 1.29 Argentina's public apparatus is worn out as a result of ineffective strategic planning and the absence of linkage between planning and budgeting, with the latter process based on slow and poor quality operating routines. The budget does not take account of the strategic objectives of agencies and does not include the funds needed to carry through on policy proposals and it often does not even reflect agency structure. Modern management techniques and computerized processes are scarce. Managers have little flexibility in administering resources in pursuit of their objectives and institutional missions.
- 1.30 This contributes to the fact that public agencies feel little commitment or accountability. There is no accounting based on results and transparency is not prevalent. There is no systematic mechanism for evaluating budget programs, just

macro-control over spending, which is very limited in terms of verifying results and impacts. Internal and external auditing agencies look more closely at compliance with the rules than they do at results.

- 1.31 From the standpoint of commitment to the users of services, public agencies, particularly in the social sectors, have not developed mechanisms for citizen participation in verifying the quality of services. There is little transparency or commitment in public institutions to their clients/citizens. There are no suitable indicators for evaluating the quality of the services offered by public institutions or for providing relevant information for the community of users. The consequence is the absence of clear accountability by senior civil servants to the public for the results of their actions. The publication of transparent standards for user service could motive citizens to participate actively in the process of monitoring the quality of the services they receive, with direct input into decision making processes, particularly in the social sectors, since the government's policy is based on the quest for social equity, through flexible and modern public agencies.
- 1.32 In December 1999, congress passed a law eliminating 11 departments (leaving 42) and 113 under-secretariats (leaving 58). The State Modernization Department was created in January 2000, under the Office of the Vice-President. The Modernization Committee was also created and its members are the General, Legal and Technical Secretaries of the Office of the President, the Minister of Finance, the Secretary of the State Modernization Department, the Deputy Secretary for Public Management of the Office of the Cabinet of Ministers and the Attorney General. The State Modernization Department of the Office of the Vice-President was eliminated in October 2000. Its functions were transferred to the Office of the Cabinet of Ministers.
- 1.33 The Under-Secretariat for Public Management, which reports to the Office of the Cabinet of Ministers, is responsible for policies on quality control, information systems, human resources, organizational architecture, simplification and transparency, and for supervision of the National Public Administration Institute (INAP). Many programs and projects in the sector – such as the letters of commitment to citizens – are coordinated by the under-secretariat.
- 1.34 For purposes of the measures for modernization of the State, the Office of the Cabinet of Ministers does not have a permanent staff and works with about 30 consultants on designing new management models and assisting agencies that participate in performance-based programs and letters of commitment of citizens.
- 1.35 The national plan for State modernization was prepared in August 2000, with the following vision: a public administration in the service of citizens, that is effective, efficient, provides quality services, is flexibly organized and based on performance-based. The proposal is to provide more and better services under an ongoing

process of reform, taking an open and participative approach. The national plan for State modernization also defines the following cardinal objectives:

- a. Establishment of performance-based, flexible in the use of resources but strict in pursuing goals, based on accountability systems that make management more transparent.
- b. Strengthening of the government responsibilities that cannot be delegated: legislation, justice, education, culture, science and technology, health care, security, national defense, social security, social promotion and employment.
- c. Strengthening of the government's regulatory capacity to safeguard user interests and the public interest as it bears on benefits.
- d. Strengthening and optimization of revenue collection agencies to ensure voluntary compliance with obligations, which will lead to greater tax equity that will allow for improvements in taxpayer services.
- e. Strengthening the channels for dialogue and participation by different social stakeholders to ensure that the State becomes an effective provider of public services.

- 1.36 The proposed approach is to change the management model through projects for structural modernization, transparency and policies to combat corruption. These actions are expressions of the government's determination to steer the State toward a more efficient, dynamic and manageable model, while boosting its efforts in the social area.
- 1.37 Based on the above analysis, the Argentine government has asked the Bank for support in actions to modernize the State, some of which are included in the proposed program, particularly implementation of performance-based in public institutions and increased transparency and commitment to citizens, through the definition of quality standards for services agreed upon with users.
- 1.38 Support will be provided for projects in ANSES, the Ministry of Labor's Employment Department and the Ministry's of Health's Mother and Child Welfare Program. A service-delivery unit will be selected in each of the three institutions to carry out a pilot project.
- 1.39 ANSES is a public agency that administers retirement pensions, disability benefits, family allowances, unemployment insurance benefits and employment programs, coordinating 39% of the national budget. It has a network of 180 operating units, 99 of which are full-service units, six are regional offices and 75 are forwarding offices, in addition to 10 mobile units. ANSES has agreed to implement performance-based and letters of commitment to citizens and is in the process of selecting a representative full-service unit to carry out the pilot project.

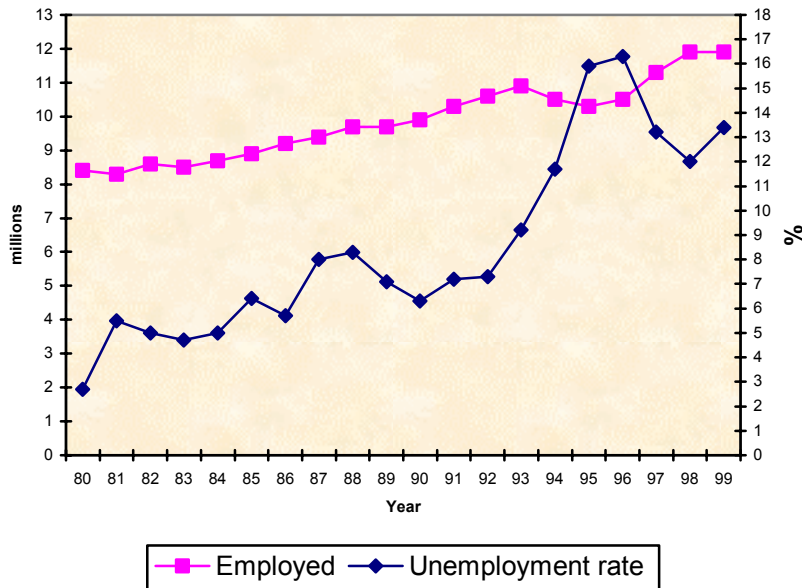
- 1.40 The Employment Department of the Ministry of Labor, Employment and Human Resources Training cooperates in activities to create new jobs and update analyses of market demands for work skills. It also designs strategies to increase the impact of public employment and job training programs, supporting intermediation in the labor market. It performs its activities through decentralized units called Employment and Training Offices and has 29 of them country-wide. The ministry has agreed to select a unit for the pilot project and to use program support to develop a strategy for performance-based and letters of commitment in the Employment Department, which will coordinate the program.
- 1.41 The Mother and Child Welfare Program (PROMIN) seeks to provide better assistance for vulnerable groups, particularly preschool children and mothers. Although it is a federal program, PROMIN is based on units managed in the provinces. This pilot project is therefore conditional upon whether the selected province agrees to participate in the program. Steps are being taken by the Office of the Cabinet of Ministers to obtain that agreement.

3. The labor market

- 1.42 Jobs are currently the issue of greatest concern to Argentines. Opinion polls show that in August 2000, 87% of the population considered unemployment to be one of the country's main social problems.¹ This is because indicators for poverty and income concentration have risen as a result of the recession in the last two years while employment has shown no signs of recovery.

¹ Based on a representative sample, the opinion poll found that Argentines considered the main social problems to be unemployment (87%), lack of security (57%), corruption (35%), poverty (29%), low wages (22%), the economy (18%), education (17%), public health (14%) and low retirement pensions (10%).

Graph I-2. Number of employed (millions) and open unemployment rates (%)
Total urban areas. 1980-1999



Source: Ministry of Finance, Economic and Regional Programming Department

- 1.43 Graph I-2 shows the evolution of employment and unemployment rates in the 1990s. Although employment levels have increased in the last five years, the increase was mainly in the informal segment, which accounts for 36% of salaried workers and 73% of the self-employed. The unemployment rate rose from 13.8% to 15.4% between October 1999 and May 2000, with almost 2.1 million people out of work.
- 1.44 Labor legislation imposes a series of social contributions on wages, intended to finance a substantial part of the health care and pension systems. The high level of those contributions and the complexity of the administrative formalities they entail has led to high levels of evasion by not registering labor contracts. A study conducted by the Novum Milenium Foundation found that to register a labor contract, a company must fill out 16 forms containing 492 items of information in 10 different administrative entities. Official estimates suggest that labor legislation is only complied with for 6.2 million out of a total of 11.7 million employed and 45% of private-sector employees hold jobs that are not registered. The phenomenon is particularly prevalent in companies with fewer than 50 employees, which account for almost 90% of all unregistered contracts.
- 1.45 Public employment policies have focused on containing the social impact of rising unemployment through programs to create temporary jobs, with little attention to assistance in job hunting, training or workforce reentry services for the

unemployed. The limited efforts to support these processes have suffered because they are funded from a vast array of sources and the criteria for administering them have prevented effective coordination of the programs and reduced their impact.

- 1.46 There is a broad consensus among analysts of the Argentine labor market that the high unemployment rates have an eminently structural origin, linked to the sweeping changes in the economy over the last decade. Long-term actions are required to address these problems (such as education reform to adapt the profile of new workers to the demands for knowledge and skills by companies that are administratively and technologically more complex), in addition to short-term actions to reduce the costs of contracting for companies and to assist the unemployed in finding new work.
- 1.47 The recently-passed Labor Reform Act (Law 25250) is a major step toward laying the groundwork for a recovery in employment levels. The act extends the probation period (during which contracts can be terminated without compensation) from one month to three months for large companies and to six months for small ones. Also, collective contracts can establish probation periods of up to one year. This reduces the costs of creating jobs for companies, gives them more flexibility in expanding employment levels and creates conditions that resemble international rules and practices more closely.
- 1.48 Law 25250 also includes a series of measures to reduce the tax and administrative costs entailed in creating jobs. It establishes a 33% reduction in the social contributions that companies have to pay for new employees hired over and above the number they had as of April 30, 2000. The implication is that a new company (that had an employment level of zero on April 30) would see a reduction of 33% in its social contributions. Since those contributions account for 70% of total salary costs, the reduction in total salary costs for this item would be 23%, which would have a significant impact on growth in jobs. Labor market analysis estimate that the reduction in social contributions for existing companies would be felt over the next eight years, given the country's employee turnover rates. In terms of fiscal impact, there would be a reduction in evasion (particularly in ANSES) proportionate to the difference represented by the reduction in social contributions. Since the measure only affects increases in stock (not the sock of workers already employed), its fiscal impact is relatively less.
- 1.49 The Master labor contract Register envisaged in Law 25250 and supported under the proposed operation would also help to reduce the costs of registering labor contracts and evasion in the payment of social contributions. The Master Register requires just one step to register a contract (as compared to 16 at present) and establishes a system for capturing and distributing data on the company and the employee that is necessary for adequate control over the payment of social contributions by the different agencies involved.

- 1.50 Last, the law reverts the interventionist tradition in the collective bargaining process, decentralizing the process of wage negotiations to some extent, increasing the number of negotiating units and providing more diverse negotiating levels than just a centralized level by branch of activity. To help develop new negotiating mechanisms, Law 25250 provides for the creation of a Federal Mediation and Arbitration Service, which will be supported under technical assistance activities complementary to this operation.
- 1.51 Apart from these legal changes and with a view to boosting the efficiency of labor exchange mechanisms, with support from this operation the Argentine government will design and implement a system of offices to deliver unified job placement, training and workforce reentry services for the unemployed. The purpose of the system will be to bring in and steer the unemployed to the different services offered by the public and private sectors to facilitate finding new jobs, with the general objective of developing focal points for delivering competitively-contracted services for the unemployed. One important feature of this system of employment offices is that operations will be based on linkage among a series of public and private organizations that operate in isolation today. The government will mobilize additional public and private resources to invigorate the system of employment offices through steps to make procedures uniform and to create a coordinated network for exchanges of information and services among the participating institutions.

4. Social development

- 1.52 Estimates based on permanent household surveys conducted by the National Statistics and Censuses Institute (INDEC), indicate that poverty levels in Argentina have risen slightly since 1994. In 1998, close to 9.5 million people (about 29% of the urban population) lived in poverty. Close to three million of them can be classified as indigent, since their income does not cover their basic nutritional needs. In relative terms, the main pockets of extreme poverty or indigence are found in cities like Formosa (55.3%), Jujuy (55.3%), Gran Resistencia (50.3%) and Corrientes (50.2%).
- 1.53 To meet the most pressing needs, the Argentine government spends about US\$3.6 billion a year to finance national social programs, which currently benefit 2.2 million people living in socially vulnerable situations, such as the very poor, the unemployed, the elderly, and the victims of natural disasters. However, federal social authorities are concerned that they are not reaching all people living in extreme poverty. The structure of social programs to support them is very fragmented, which creates distortions, discretionality, and political patronage.
- 1.54 By way of example, there are 71 national social programs, 34 of which have direct beneficiaries, while the other 37 work through NGOs. The way they are managed today leads to overlapping of services and duplication of benefits for the same

- people, while a large number of people who need government aid are left out. The clearest distortions or overlapping occur when the same person receives the same type of social aid under different national, provincial or municipal programs that are not coordinated. Furthermore, the programs are isolated efforts and limited to welfareism, without considering the synergistic benefits of comprehensive interventions with families living in extreme poverty that encourage them to try to overcome their situations of social vulnerability.
- 1.55 The large number of social programs of different sizes suggests that administrative efforts could be organized in a more cost-effective manner, to unify programs under simpler structures. Generally speaking, the programs are administered by different agencies, which use different selection criteria, different types of transfers for similar needs and other aspects that result in considerable inefficiency. Better definition of beneficiaries and elimination of overlapping benefits could often free up funds that could be used to improve the coverage of social programs, which would be socially recommendable in a context of growing poverty.
 - 1.56 To address these problems, the Argentine government has taken a number of steps to promote more efficient management of national social programs that have direct beneficiaries and to improve targeting of efforts to assist persons living in extreme poverty. The country's president recently instructed his Office of the Cabinet of Ministers to establish a Social Cabinet, whose most immediate goal is to integrate national social programs that are currently fragmented, based on strategies for comprehensive and coordinated intervention that reflect the government's priorities for alleviating dire poverty.
 - 1.57 The Social Cabinet is also coordinating activities to establish a national tax and social identification system (SINTyS) which, among other applications, will create a master list for identifying and confirming the eligibility of direct beneficiaries of national social programs in order to avoid duplication of benefits, detect fraud and put an end to the problem of lack of transparency in management that leads to patronage. The initiative is receiving external financing from the World Bank.
 - 1.58 The SINTyS is applying all the advances in information systems made by public institutions that identify beneficiaries of national social programs, particularly the ANSES databases and the master system for the identification and registration of beneficiary families of social programs (SISFAM). As part of a technical effort being supported by the IDB, SISFAM is an instrument for targeting social programs that also permits more precise socioeconomic descriptions to be made of poor families, which will help to direct welfare to people who really need it. SINTyS is an effort to build a single register of beneficiaries that will certify their eligibility for given programs, making for more efficient management of national social programs.

- 1.59 As part of the same philosophy of coordination and integration of national social programs for the very poor, the Ministry of Social Development and Environment (MDSyMA) is leading implementation of the Solidarity Program, in which the Ministries of Education and Health also participate. The program is intended to support families living in extreme poverty through an integrated set of actions in education (scholarships), health (preventive care and mother and child health promotion) and nutrition (food banks and cash). One innovative aspect of the Solidarity Program is its quest to promote commitment by families by linking this set of interventions to assistance for school-age children, preventive checkups for pregnant women and children, and nutrition for babies.
- 1.60 Initially, the Solidarity Program will begin in 23 localities and assist 25,000 families (about 120,000 beneficiaries in total), at an estimated cost of US\$10 million in 2002 and 2001, financed from budget reallocations. The pilot project will be evaluated at the end of 2001 in the localities where the program is most advanced in order to fine-tune its targeting mechanism, examine the pertinence of its interventions and measure their impact, see how well it is received by the beneficiary families, and evaluate the financial sustainability of the program when it is fully operational. In light of the results of the evaluation, the program will be gradually extended to 400,000 families living in extreme poverty by 2003 (about 2 million beneficiaries in total), at an estimated annual cost of US\$200 million.
- 1.61 The present program will support the progress made by the government in social development through actions to consolidate, coordinate and integrate social programs and to start up an information system to identify the beneficiaries of national social programs. This support will also seek to assist the government in its efforts to develop a methodology for evaluating the Solidarity Program to measure its impact on beneficiary families by extracting a baseline from a representative sample of beneficiaries. The evaluation instrument should be ready to be applied in the pilot localities by the end of 2001.

C. Program rationale

- 1.62 The rationale of the program is to bring about the institutional adjustments necessary to make the most of the reforms already implemented, in terms of rationalizing social programs, reducing fiscal costs and generating basic information for better management of social programs. In addition, the adjustments will be crucial contributions to boosting competition on the labor market, since today's high labor costs are one of the main obstacles to the recovery of Argentina's economy.

1. The program's contribution to the fiscal balance

- 1.63 In the social sectors, the main factors that contribute to the fiscal imbalance are: (i) evasion and the high cost of benefits under the public social security system;

- (ii) growth in the informal sector and high unemployment rates, which contribute to that evasion; (iii) poor efficiency in the budget management of institutions that provide social services financed from the public purse, which operate under a rigid management model that lacks transparency; and (iv) the host of national social programs, marked by fragmentation, duplication of efforts, and discretionality.
- 1.64 The program will support activities to promote fiscal balance by generating basic information to identify and correct some of the main factors that lead to evasion of social contributions. It will help to establish mechanisms to evaluate national social programs, with the goal of reducing unnecessary spending on duplicated benefits and spending that is not managed efficiently.

2. The program's contribution to social management

- 1.65 To improve the management of social programs, the project will help to identify the real needs of the different segments of the population, by providing information and tools for social management that will: (i) inform users of their rights; (ii) design unified action strategies for taking the decisions needed to streamline and coordinate social programs; and (iii) improve the efficiency with which social programs are managed by introducing evaluation mechanisms for good targeting and adaptation to social demands, with the goal of improving the quality of life.
- 1.66 The main shortcomings in social program management that can be identified and corrected under the present program are found in: (i) the pension systems, where a large number of workers cannot decide which institution to join since they do not have enough information on the comparative advantages of each in terms of administrative costs and returns on their contributions; (ii) ANSES, which does not have sufficient administrative, financial or accounting information on contributions and takes too long to process and grant benefits; (iii) the host of labor registration requirements which increases hiring costs; (iv) the lack of coordinated and unified mechanisms on behalf of the unemployed that would prevent the waste of resources in existing programs to support the labor market and efficiently promote the recovery of employment levels to meet the challenges of globalization and international competitiveness; and (v) national social programs, where there is a lack of administrative information on coverage and quality and user-identification systems, benchmarks, means of verification and strategies to monitor and evaluate programs.

3. The program's contribution to labor market competitiveness

- 1.67 The program will help increase the competitiveness of the Argentine economy by supporting a labor law and supplementary measures to reduce the cost of registering workers for businesses, to establish more efficient resolution of labor conflicts through mediation and arbitration, and to set up mechanisms to promote faster,

more efficient labor retraining, thereby contributing to lower labor costs and a more efficient allocation of resources in the economy.

D. The Bank's country strategy

- 1.68 The Bank's country strategy identifies the following main priorities: (i) consolidation of public sector reform; (ii) increased productivity and competitiveness; and (iii) poverty reduction and improvement in the quality and coverage of social programs by rationalizing social spending. In the new vision of the Bank's country strategy, priority is also given to support for the fiscal balance and economic recovery.
- 1.69 The proposed program covers these three strategic areas. It contributes to the consolidation of **public sector reform** by supporting reform of the social security system, introducing management commitments and letters of commitment to citizens in institutions that provide public services; it supports **increased competitiveness** through the reforms introduced under the new Labor Act and the prospects for reducing contracting costs, making the process more flexible and improving the quality of human resources; it contributes to the government's strategy of **improving the quality of national social programs**, by rationalizing public spending and targeting social services more accurately to the country's neediest communities.
- 1.70 Last, the program adds value to other sector and investment loans that have been completed or are under way in Argentina, since its point of departure are measures that were implemented under the framework of those loans. The sector loans complemented by operation are the Sector Program in Support of Fiscal Adjustment and Social Reform (871/OC-AR), the Provincial Social Security Sector Reform Program (961/OC-AR) and the Program on Special Structural Adjustment and Strengthening of Banking System Safeguards (1163/OC-AR). The investment loans complemented are the Program in Support of Vulnerable Groups (1021/OC-AR), the Youth Productivity and Employability Support Program (1031/OC-AR) and the Program to Consolidate Administrative and Financial Reform of the National Public Sector (826/OC-AR). Annex I-1 shows how the present project complements these operations.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program will support the Argentine Nation in its efforts to maintain the fiscal balance, improve the management of social programs, and help increase the competitiveness of the labor market. To achieve these objectives, the program will promote institutional adjustments so that the reforms already undertaken in social security, modernization of the State, the labor market and social development can produce optimal results.

B. Program structure

- 2.2 The loan is a social sector operation for a total of US\$400 million to be disbursed in two tranches of US\$204 million and US\$196 million, respectively, with an estimated maximum interval of 18 months between the two disbursements.² Up to US\$10 million from loan 925/OC-AR (Preinvestment II) will be used to prepare the policy actions that are conditions for release of the second tranche.

1. Social security

- 2.3 **Objective.** This component will help to improve efficiency and equity in the public pay-as-you-go system through better management of contributions and benefits and in the optional privately-funded system through better quality and more transparent information systems.
- 2.4 **Lines of action.** The component will include the following lines of action:
- a. *To support tighter control over spending in the public pay-as-you-go system,* through the generation of information for good management of income and spending on benefits and tighter control over costs.
 - b. *To increase transparency and competition among operators in the privately funded system (PFAs),* through measures to provide more and better information for users, reduce administrative costs, and improve returns on individual contributions.
- 2.5 **Conditions for the first tranche:** (i) give effect to the legal rules and instruments for creating an administrative, financial and accounting information system (the Financial Information System - SIDIF) in ANSES to improve the management of

² Annex II-1 presents the matrix summarizing the policy actions that condition the release of funds for the two tranches. The preparatory actions and benchmarks to determine compliance with the conditionalities for the second tranche are presented in Annex III-2.

spending, and implement the decision to periodically publish its accounting statements on income and expenditures in the national public social security system, which are to be audited by independent specialized auditors acceptable to the Bank; and (ii) present proposals to the Bank for rules to improve the information system on PFA performance, establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.

- 2.6 **Conditions for the second tranche:** (i) implement the administrative, financial and accounting information systems in ANSES; and (ii) give effect to the rules to improve the information system on the performance of PFAs, establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.

2. Modernization of the State

- 2.7 **Objective.** The basic objectives of this component are to: (i) improve the administration of public agencies by developing management skills and obtaining budget performance results, with this component focussing on social security (ANSES), the labor market (Ministry of Labor, Employment and Human Resources Training—MTEyFRH) and PROMIN; and (ii) raise the quality of public services through a continuous evaluation process and transparent management based on quality commitments agreed upon with the public.

- 2.8 **Lines of action.** The component will include the following lines of action.

- a. *Design and implementation of a system of performance-based for public agencies.* The system will support public institutions by developing planning tools to facilitate the identification and solution of problems, process reengineering, linkage between budget and operational programming, introduction of accountability systems, establishment of systems for operational control and management and training for human resources in the new management model.
- b. *Signature of letters of commitment to citizens which define quality standards for public agencies.* The letters will define mechanisms for interaction between public organizations and citizens, spelling out their rights in each particular case. They also represent an explicit commitment to service by senior public managers, through the publication of standards for measuring and monitoring the quantity and quality of the services provided by each agency.

- 2.9 **Conditions for the first tranche.** The Office of the Cabinet of Ministers (JGN) will present a model for performance-based management and prepare a model letter of commitment to citizens. At least three agreements must be signed with public service providers to carry out the corresponding pilot projects. At least three

complete strategic plans must be presented, containing indicators and goals for the pilot projects.

- 2.10 **Conditions for the second tranche.** Presentation of reports evaluating the performance-based management model and letters of commitment to citizens in the pilot projects carried out and rules for applying them to other public agencies. Presentation of signed performance-based management agreements and letters of commitment in one decentralized area of ANSES, one PROMIN unit and in the MTEyFRH, which will design a conceptual model for implementation of the letter of commitment to citizens and performance-based management with a view to their eventual implementation throughout the network of decentralized public and private offices providing assistance to the unemployed.

3. Labor market

- 2.11 **Objective.** This component will support actions to promote continuity in the process of modernizing the labor market and reducing labor contract rigidity, with a view to lowering labor costs for employers, raising employment rates, and reducing informal and unstable jobs. The specific objectives include: (i) reducing the cost of registering labor contracts, with the consequent reduction in the number of unregistered workers; (ii) lowering collective bargaining costs by introducing mechanisms for conciliation and arbitration; and (iii) improving the quality and availability of placement, training, workforce reentry and support services for the unemployed.
- 2.12 **Lines of action.** The component includes the following lines of action:
- a. *Passage in May 2000 of a new Labor Act (Law 25250)* that reduces social contributions on contracts, extends the probation period for new employees and invigorates the collective bargaining process.
 - b. *Establish a master labor contract register.* As part of the efforts to reduce unregistered employment and labor costs, Law 25250 provides for the creation of a one-stop window for registering contracts and paying taxes and contributions on wages. This window is based on an easily accessible system (Internet, telephone or mail) for capturing data on labor contracts, a database administrator to forward that information to the pertinent institutions (Federal Tax Administration, public or private pension system, and the health, life and labor risk insurance system), and a system for liquidation, conciliation and distribution of contributions among those institutions. The program will provide technical assistance to: (i) design the master labor contract register; and (ii) implement the register as an associative activity in which all labor and social security agencies will participate.

- c. *Implement a system of unified services offices* for placement, training, workforce reentry and support services for the unemployed. The program will support the development of a proactive employment and training policy intended to promote productive investments and reduce employer hiring and training costs and the cost to the unemployed of finding work. The system is based on a network of employment offices with focal points in the MTEYFRH's Employment and Labor Training Offices, which will support public and private members of the network by establishing homogenous procedures for guidance, job searches, placement and detection and satisfaction of employers' personnel requirements. The network will focus on integrating and improving the efficiency and effectiveness of the series of public and employment offices that currently operate with no coordination. To improve the linkage and match between the services offered by the network and local labor market requirements, consultative employment and training councils will be established, composed of representatives of local agencies, civil society and business. The councils will guide the design and selection of activities to be carried out by the network of offices. The efforts will require mobilization of private funds (through the contribution of independent employment offices) and the MTEYFRH's regular budget (through services to consolidate the network).
- 2.13 **Conditions for the first tranche:** (i) recognition of passage of the Labor Reform Act (Law 25250) which addresses the objectives described in paragraph 2.12); (ii) presentation of the preliminary design for a unified system for registering labor contracts (master labor contract register); and (iii) presentation of the preliminary design for a system of offices to deliver placement, training, workforce reentry and support services for the unemployed (network of employment offices).
- 2.14 **Conditions for the second tranche:** (i) satisfactory implementation of the unified system for registering labor contracts (master labor contract register); and (ii) implementation of the network of employment offices in at least four jurisdictions.

4. Social development

- 2.15 **Objective.** This component includes actions to: (i) improve management and avoid duplication in the host of national social programs that have direct beneficiaries, by coordinating and integrating the actions of the institutions in charge, targeting their programs to people living in extreme poverty, preserving the most cost-effective actions and promoting a commitment by poor families to try to overcome their situations; and (ii) develop a methodology to evaluate the Solidarity Program which will measure the impact on beneficiary families, the extent to which it targets people living in extreme poverty and its potential for financial sustainability, prior to introducing the program on a large scale.

2.16 ***Lines of action.*** The component includes the following lines of action:

- a. *Improvement in the management of national social programs that have direct beneficiaries.* The program will support efforts by the Office of the Cabinet of Ministers, which leads the Social Cabinet to coordinate and integrate national social programs under a strategy to alleviate extreme poverty. In light of those efforts, progress is expected in: (i) rationalizing and integrating the programs, preserving those that are most cost-effective and improving the focus on the country's indigent, reducing administrative costs and avoiding discretionality; and (ii) operating the SINTyS as a master roll for identifying the direct beneficiaries of national social programs by certifying the status of beneficiaries of government social aid on the basis of eligibility criteria that will exclude people who do not belong to the target group.
- b. *Assistance in developing the methodology to evaluate the Solidarity Program.* This line of action includes support for designing and developing tools to evaluate the program, making it possible to: (i) revise and fine-tune its targeting mechanism; (ii) ascertain the pertinence of interventions; (iii) scale the impact on beneficiary families; and (iv) measure its financial sustainability prior to introducing the program on a large scale. The technical assistance accompanying this operation will produce a methodology for evaluating the Solidarity Program which will be ready for use by the end of 2001, as an operating support for the design of this initiative to improve targeting mechanisms and analyze alternative options for interventions, while also serving to extract a baseline from a representative sample of beneficiaries and for impact assessment in the localities selected for the pilot program.

2.17 **Conditions for the first tranche:** (i) presentation of regulations to certify the progress made in integrating national social programs that have direct beneficiaries and that a provision has been included in the 2001 budget to consolidate those programs, as a reference framework for establishing general guidelines for their coordination and integration; (ii) presentation of a detailed work plan, including actions, goals, benchmarks, and a duly-substantiated budget that will make it possible to arrive at the second tranche with the National Tax and Social Identification System (SINTyS) in operation, able to respond to consultations by national government agencies on the eligibility of social program beneficiaries; and (iii) presentation of a work plan for formulation of the methodology for evaluating the Solidarity Program, detailing the actions, goals and benchmarks that will make it possible to arrive at the second tranche with a methodology ready to be applied. Implementation of the work plan will be approved under an administrative decision issued by the Ministry of Social Development and Environment (MDSyMA).

2.18 **Conditions for the second tranche:** (i) presentation of evidence that the SINTyS is operating and able to respond to consultations by national government agencies on the eligibility of social program beneficiaries; and (ii) presentation of the

methodology for evaluating the Solidarity Program and the administrative decision guaranteeing that funds have been set aside to apply the program in at least four localities in the pilot project, prior to extending the program to the entire universe of beneficiary families.

C. Technical assistance for the program

- 2.19 To ensure that the conditionalities for the second tranche for the four program components are complied with, the government has undertaken to implement a strategic technical assistance plan (PEAT) to be financed with proceeds from loan 925/OC-AR for the preparation of studies, evaluations and proposals for pilot projects. The PEAT activities are described below.
- 2.20 **Social security component.** Consulting services will be contracted to carry out the following activities: (i) a study on pensions and benefits under the special and differential plans, including an analysis of the situation and proposals for rules to eliminate the differences and inequities in those plans; (ii) a study to review criteria for readjusting the benefits in the public social security system; (iii) a study to evaluate noncontributory and welfare benefits with a view to rationalizing the future financial coverage of the new special old age benefit proposed in the Social Security Reform Act; (iv) preparation of an actuarial demographic model for the pay-as-you-go system that will forecast the future behavior of income and spending in the system in function of changes in social security policy, simulating their possible impact and developing decision-making capacity by designing new instruments and rules for improving financial and accounting management in the sector; (v) preparing a model for the macroeconomic consistency of the social security system which will simulate the impact of changes in social security on the behavior of the economy and public finances; the model will be synchronized with the actuarial demographic model; (vi) a study on the decisive factors in PFA selection by future members; (vii) a study on the competitiveness of the privately-funded system in order to detect factors that reduce competition among PFAs and evaluate mechanisms that can improve it; and (viii) actuarial studies to produce tables estimating disability insurance requirements for members of the PFAs.
- 2.21 **State modernization component.** Prior to release of the second tranche, the government has undertaken to contract consulting services to: (i) implement the management commitments and agreements in one decentralized ANSES area, one PROMIN unit and in the MTEyFRH; (ii) evaluate the model for management commitments and prepare rules for applying it to other public agencies; (iii) implement the model letters of commitment to citizens in one decentralized ANSES area, one PROMIN unit and in the MTEyFRH; and (iv) evaluate the model letters of commitment and prepare rules for applying them to other public agencies.
- 2.22 **Labor market component.** Consulting services will be contracted to support: (i) implementation of a master labor contract register; (ii) establishment of a federal

mediation and arbitration service; and (iii) creation of a national network of employment offices.

- 2.23 To implement the master labor contract register, the consultant will: (i) produce a technical and institutional design for a simplified contract registration system (information system, financial system and institutional framework); (ii) implement the system for data capture, signature of agreements for one-stop registration and operation of the master database and the system for distributing information to labor and social security agencies; (iii) design the interface between the databases of the labor and social security agencies; and (iv) prepare MTEYFRH directives on administration of the database and its linkage to the labor and social security agencies; and (v) establish a system for the liquidation of labor contributions and benefits and a system for consolidation and distribution of funds to labor agencies.
- 2.24 For the design of the federal arbitration and mediation service, the consultants will determine the organizational and institutional criteria for the model; define the legal status of the service; establish a registration and documentation system; and design routines, flows of activities and lines of responsibility in the service's organizational structures.
- 2.25 For implementation of the national network of employment offices, activities will be undertake to design the network, integrate it with the central unit and train personnel, select proposals for mounting the offices in the network, develop technical studies and software for network management, communications services, register of institutions and interface between the offices and the training centers, publicity campaigns, and design and introduction of strategies to monitor and evaluate the network's activities.
- 2.26 **Social development component.** To help develop the methodology for evaluating the Solidarity Program, consulting services will be contracted to conduct surveys of a representative sample of potential program beneficiaries to establish a baseline for evaluation and to assess program impact on beneficiary families.
- 2.27 The consulting activities will: (i) fine-tune the targeting methods and the design of the benefits to be provided under the Solidarity Program (scholarships, food subsidies, food banks, and preventive health checkups); and (ii) hold workshops or seminars to examine and discuss development of the program in light of international experiences such as the Income Generation and Welfare Services Program (PROGRESA) in Mexico.
- 2.28 The evaluation stage as such requires surveys to obtain information on the beneficiary households and institutional aspects before and after the Solidarity Program so that its impact can be evaluated. This requires a definition of the sample size, the preparation of the measurement tool, impact analysis and preparation of reports containing conclusions and recommendations. The final

product will be an evaluation methodology ready to be applied in at least four localities in the Solidarity Program pilot project, prior to its being extended to the total universe of beneficiary families.

III. PROGRAM EXECUTION

A. Borrower and executing agency

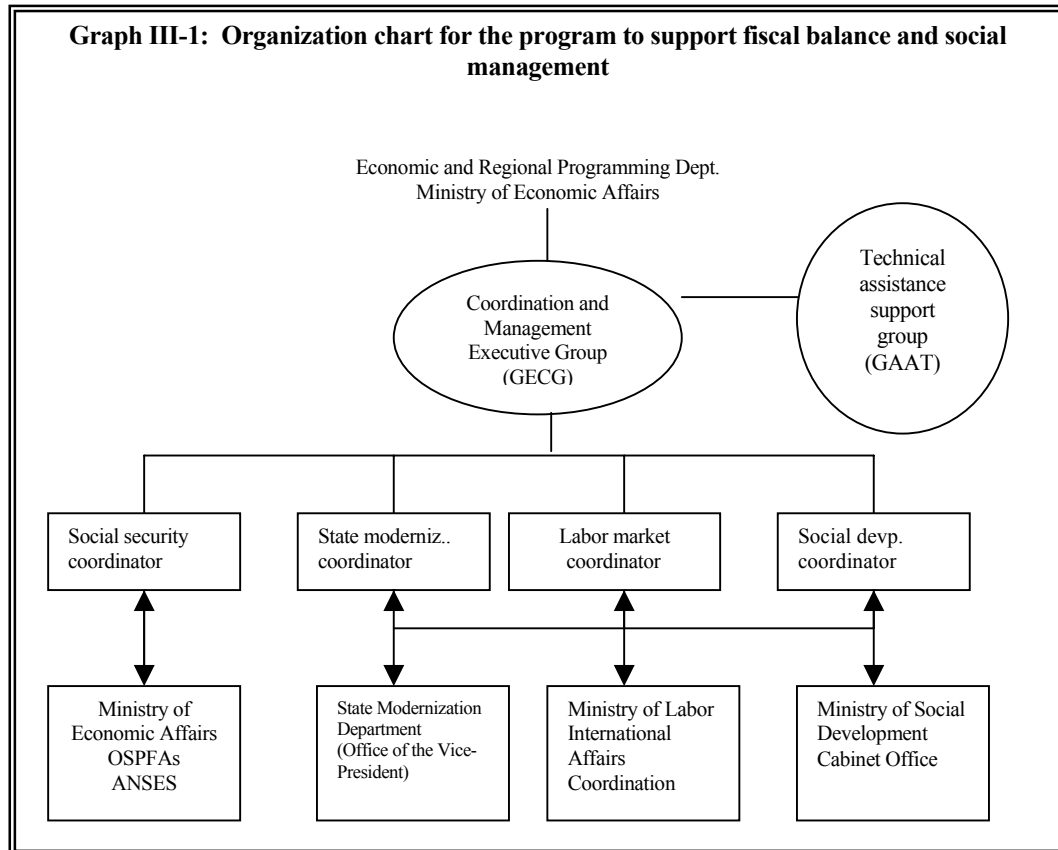
- 3.1 The borrower will be the Argentine Nation. The executing agency will be the Secretaría de Programación Económica y Regional (SPER) [Economic and Regional Programming Department] of the Ministry of Economic Affairs, which will carry out program activities and supervise compliance with the clauses established in the matrix of policy actions, coordinating the necessary measures with the other participating ministries and agencies. The ministries and agencies that will participate in the program are the Employment Department of the MTEyFRH, the Office of the Cabinet of Ministers, and the Ministry of Social Development and Environment.
- 3.2 SPER will coordinate program execution and linkage with the different ministries and public agencies involved in each component to: (i) ensure timely compliance with the conditionalities for the first and second tranches of the loan; (ii) ensure timely and adequate execution of the technical assistance activities to comply with the conditionalities for the second tranche; and (iii) guarantee that the funds necessary to support compliance with the conditionalities and for technical assistance will be assigned in the 2001 budget and that they will be available prior to the first disbursement of the loan.
- 3.3 To facilitate coordination, SPER will establish a coordination and management executive group (GECG), which will be responsible for program administration, monitoring and general evaluation.
- 3.4 SPER's Preinvestment Unit (UNPRE)³ will be responsible for the strategic technical assistance plan (PEAT) that will undertake the actions necessary for the second tranche of this operation. The plan will be financed from loan 925/OC-AR (Preinvestment II). To streamline execution of this operation, the contractual amendments to include PEAT in loan 925/OC-AR and the loan contract for AR-0271 should be signed simultaneously.
- 3.5 UNPRE will establish a technical assistance support group (GAAT), appointing a coordinator to take charge of contracting and supervising the consultants and services necessary to carry out the actions included in PEAT.

³ UNPRE is the unit of SPER's National Public Investment and Project Financing Directorate which, when requested, handles all the funds necessary to prepare projects that use external funds, prior to their approval and execution by multilateral lending agencies.

B. Project execution and administration

- 3.6 The coordinator of the GECG will be appointed by the Ministry of Economic Affairs. The other members of the group will be the GATT coordinator in UNPRE, a representative of the Office of the Senior Advisor to the Ministry of Economic Affairs, two representatives from the JGM, a representative from the MTEyFRH Employment Department, and a representative from the Solidarity Program coordination office of the International Financing Unit of the Ministry of Social Development and Environment (MDSyMA).
- 3.7 A coordinator will be appointed for the GECG to oversee activities in each of the four program components. The social security component will be coordinated by the Office of the Senior Advisor to the Ministry of Economic Affairs. The State modernization program will be coordinated by the JGM. The labor reform component will be coordinated by the MTEyFRH Employment Department and, last, the social development component will be coordinated by the Solidarity Program Office of the MDSyMA, with participation by the JGM. The coordinators of each GECG component will work with the GAAT coordinator.
- 3.8 Apart from being responsible for the specific tasks in their areas, the coordinators will cooperate with the SPER in the program's technical assistance activities. Their basic responsibilities include: (i) preparing and introducing rules to improve the management of social programs in their areas; (ii) preparing and proposing terms of reference for the studies and consulting services to support implementation of their work plans and submit them to GAAT for financing; and (iii) providing the GECG with the information it needs for efficient program execution.
- 3.9 The GECG will meet once a month to monitor the steps being taken to comply with program conditionalities and at other times when called by its chair. The GECG will be responsible for: (i) compiling and presenting to the Bank the information necessary to authorize the release of each tranche, including duly-verified supporting documents to justify compliance with the loan conditions; (ii) coordinating and monitoring the actions carried out by the other ministries and agencies in the program, particularly with regard to the design and implementation of the actions necessary for release of the tranches; (iii) supervising the technical assistance provided through UNPRE, ensuring compliance with the agreements and other arrangements between the Argentine government and the Bank; (iv) acting as the government's main technical interlocutor with the Bank; (v) overseeing the studies, evaluations and pilot projects; (vi) monitoring and following up on the work plans to comply with the conditionalities for the second tranche; and (vii) preparing the reports needed for visits by Bank missions and the final report.
- 3.10 In carrying out its activities, the GECG will draw on personnel from UNPRE and consultants to be contracted with the PEAT budget.

- 3.11 Both the GECG and GAAT will cease to operate when the conditions precedent to the second tranche and other actions to bring the program to completion have been complied with. Graph III-1 shows the organization chart for program execution.



C. Procurement

- 3.12 The fast-disbursing funds from the loan may be used to finance the added cost in foreign exchange of eligible imports from the Bank's member countries. In this case the Bank's procedures for sector loans will be applied, which do not require international competitive bidding. The funds will be disbursed when requested by the borrower and evidence is presented that all the contractual conditions have been complied with.

D. Execution period and disbursement timetable

- 3.13 The maximum execution period for the sector loan will be 18 months. It will be released in two tranches, the first when the conditions precedent to the first disbursement are complied with, which is expected to be in the month when the

contract is signed. The conditions for the second disbursement are expected to be complied with 12 months after the contract is signed.

E. External auditing

- 3.14 The Bank reserves the right to request financial reports from the borrower on the use of loan proceeds, audited by independent auditors previously accepted by the Bank.

F. Conditions for processing the disbursements

- 3.15 Disbursements for each tranche are conditional upon: (i) maintenance of a macroeconomic framework consistent with the activities necessary for program execution; (ii) compliance with the policy actions for the first and second disbursements specified in Chapter II and Annex II-1, based on the benchmarks established in Annex III-1; and (iii) opening of a special account for management of the loan proceeds.
- 3.16 The following are conditions precedent to the first disbursement: (i) amendment of loan contract 925/OC-AR to enable proceeds from that loan to be used to finance the technical assistance activities included in PEAT; (ii) presentation of the preliminary terms of reference for the activities to be carried out under the technical assistance for the program; (iii) establishment of the Coordination and Management Executive Group (GECG) and the Technical Assistance Support Group (GAAT) and appointment of their staff; (iv) evidence that the government has included in its 2001 budget bill all the funds to finance PEAT, which will be executed by the Preinvestment Unit (UNPRE); and (v) evidence that funds are available in the 2001 budget bill to enable the pertinent sector ministries and agencies to take the steps necessary to fulfill the conditions precedent to the first and second tranches.
- 3.17 The borrower will be responsible for keeping accounting and financial records on the use of the loan proceeds, preparing and presenting disbursement requests and guaranteeing that the documentation will be made available for inspections by the Bank and/or the external auditors. The borrower will keep specific bank accounts to manage the funds and will submit information on them to the Bank prior to the first disbursement.

G. Program monitoring and evaluation

- 3.18 With respect to the technical assistance, within 30 days after the first six months of program execution, the Ministry of Economic Affairs, through the GECG, will present a semiannual progress report to the Bank. Apart from discussing progress, the report should include a plan of operations for the next six months. At the end of the program, the GECG will present a final report to the Bank on the studies and actions required for the second tranche, including evidence that the stipulated

products have been completed, in accordance with the benchmarks established in Annex III-1.

- 3.19 The project team will evaluate the information presented by the country on compliance with the conditionalities and will prepare reports for the Board of Executive Directors in accordance with Bank policy.

H. Inspection and supervision

- 3.20 The Bank will establish the inspection procedures necessary for satisfactory execution of this sector loan. The borrower will cooperate fully, providing whatever assistance and information are required.

I. Policy letter

- 3.21 The Bank agrees with the borrower on the policies described in the Policy Letter attached as Annex III-2. The government establishes general macroeconomic definitions and specific policy actions in the areas of social security, modernization of the State, the labor market and social development in that letter.

IV. FEASIBILITY AND RISKS

A. Feasibility

- 4.1 The best guarantee of the feasibility of this program is the Argentine government's determination to implement the actions established in this sector loan as part of its adjustment strategy for the public sector and its policy to maintain economic stability and return to the path of growth.
- 4.2 Institutional feasibility is assured through cooperation between the Ministry of Economic Affairs, which is responsible for the fiscal balance, and the ministries and agencies directly responsible for the social actions to be improved with support from this operation. This coordination structure will make it possible to carry out all the activities under the different program components. The GECG will be supported by specialized consultants who will strengthen the capacity of the technical counterpart in the Economic and Regional Programming Department and the participating ministries and agencies, to ensure full compliance with program conditionalities.
- 4.3 The PEAT will ensure expeditious contracting of studies and evaluations and implementation of the pilot projects to comply with the conditionalities. UNPRE has human resources and experience in Bank and country procedures for contracting consulting services in accordance with their rules and procedures.

B. Social and environmental impact

- 4.4 The reform programs included in this project comply with the country's environmental rules and procedures. Furthermore, it focuses on policy actions that do not entail civil works or other actions that could have a direct environmental impact. The Environment and Social Committee (CESI) considered this operation at its meeting on August 18, 2000.
- 4.5 The project does not specify performance indicators to measure poverty reduction and improvements in social equity. This operation does not qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment.

C. Gender aspects

- 4.6 The program will have a positive indirect impact on women's employment by promoting the formal sector in a context where most informal work is performed by women. Given the high percentage of poor women who are heads of households in the country, the Solidarity Program to be evaluated by the project will improve

access for female heads of extremely poor families to targeted programs for primary health care, nutrition and scholarships.

D. Benefits

- 4.7 The program will contribute to the fiscal balance through measures to streamline spending and increase fiscal discipline in managing the central government's social policies. It will help to reduce labor costs and lay the foundations for increased competitiveness on domestic and external markets as the country returns to the path of economic growth.

1. Social security

- 4.8 The actions in this field will help to generate the information required to improve management, thereby reducing costs and evasion and improving the financial balance in the pay-as-you-go system.
- 4.9 It will also improve competition and administrative efficiency in the private PFA system, by making for greater transparency and providing information that will enable users to exercise their right to decide how to apply their personal funds in the social security system.

2. Modernization of the State

- 4.10 The actions in this field will help improve the efficiency and quality of the public sector through the performance-based management model and letters of commitment to citizens, which will introduce a culture of performance-based, improving the government's social products and the quality of life.
- 4.11 The main benefit from introducing a performance-based management model in institutions that deliver social services is to ensure more efficient and effective management and reduce the unit cost of public services. Integration of strategic planning with the establishment of products, indicators and goals, coupled with management commitments and program agreements on the results of the process, will allow for permanent monitoring and evaluation of the agencies involved.
- 4.12 The main benefit of the letters of commitment is greater citizen participation in controlling the quality of public services, which will reduce the costs of other types of bureaucratic controls over processes and routines. With direct control by citizens over the quality of the services they receive, other types of processes by internal and external agencies can be made more flexible and they can be focused on monitoring the unit cost of services, since clients will control their quality.

3. Labor market

- 4.13 By recognizing passage of the new Labor Act and helping to implement it, the program will spur an improvement in employment conditions, help to reduce evasion by reducing contracting costs, particularly for small and medium-size enterprises, and improve the mechanisms for delivering services to the unemployed, supporting a reduction in unemployment through the learning of new skills.
- 4.14 The master labor contract register, with the elimination of the 16 different forms required at present, will reduce contracting costs from 6% to 1.5% of the payroll, for estimated savings of US\$700 million a year for companies. This reduction in costs will have an impact on prices and the competitiveness of products. It will also help to reduce informal jobs and increase contributions to the social welfare system.
- 4.15 The unified employment and training offices will increase the supply of services for the unemployed, helping to improve their marketable skills and the prospects for their return to the labor market in better-paying jobs.

4. Social development

- 4.16 The actions to improve national social programs will make for better coordination of federally-financed welfare efforts, an integrated social strategy and more efficient interventions for beneficiaries, while reducing administrative costs. This will translate into more and better benefits for the very poor. The master register of social program beneficiaries will also help to improve efficiency, detecting fraud in the form of fictional or deceased beneficiaries and overlapping of identical benefits for the same person. This will also free up considerable sums that can be used to extend social welfare to more families living in extreme poverty.
- 4.17 Having a methodology to evaluate the Solidarity Program prior to its being introduced on a large scale will help prevent assistance from being siphoned off to beneficiaries not in the target group, with the consequent threat to the financial sustainability of this initiative, since the benefits offered (food subsidies and scholarships, etc.) will attract the interest of people who are not necessarily indigent, which would make the program more expensive and economically unfeasible.

E. Risks

- 4.18 Achieving the goals of fiscal balance and social program implementation in the short term may depend on the moderate pace of economic growth currently being achieved, which is assumed will be maintained for the measures proposed in this program.

1. Social security

- 4.19 In this component, the greatest risk is the lack of technical elements or available data for the information systems required by the program to be established. To mitigate that risk, actions will be proposed for the second tranche and for the technical assistance linked to the program to develop adequate instruments to ensure the technical quality of the information system of ANSES and the PFA administration and to establish the mandatory nature of the information to be provided under those systems through internal regulations.

2. Modernization of the State

- 4.20 Since this component relies on a program of the State Modernization Department of the Office of the Vice-President, the recent changes in cabinet, which included the resignation of the vice-president could pose a risk for its execution. However, the Ministry of Economic Affairs, as the main executing agency of the program, gave assurances that it would maintain the original commitments to carry out pilot projects in the areas of performance-based management and letters of commitment by public institutions to citizens, which will be transferred to JGM oversight.
- 4.21 With respect to the commitments to performance-based management, the most significant risk is that the program is unable to offer incentives for the agencies, since the legal framework is very rigid and does not give the agencies implementing the model very much leeway. In the program agreements, the agencies make commitments to objectives and goals and, in return, they should be allowed some flexibility to manage their material and human resources and powers to modify their organizational structures to establish a system of rewards and punishments. To minimize the risk, the program proposes a variety of tools for personnel management, such as salary incentives, access to training, participation in policy discussions, etc., whose feasibility will still hinge on new legal and institutional conditions. There are legal obstacles to the process of making management more flexible, mainly with respect to human resources and public procurement and therefore further legal changes are required prior to signature of the first agreements in order to make the incentives as concrete as possible and not merely symbolic. There is also the risk that not all the hierarchical levels in the institutions will participate in the process, which is fundamental for its legitimacy and sustainability.
- 4.22 With respect to the letters of commitment to citizens, the main risk is that it might be impossible to respond to demands for better public services in the short term, which would increase client/citizen dissatisfaction and cause them to curtail their participation. Therefore, it is important to introduce the process gradually, beginning only with commitments that can be followed through on by each entity at the time.

3. Labor market

- 4.23 The main risk in this component is that the lack of trained personnel to run the new unified employment offices could jeopardize their operation. To reduce the risk, as indicated in the PEAT, the program will coordinate efforts with the MTEyFRH to establish a personnel training and institutional strengthening program in the offices, based on the professional profiles defined and confirmed through the pilot projects to be implemented with support from the program.

4. Social development

- 4.24 The main risk in this component is the possibility that major improvements in the management of national social programs – such as the operation of SINTyS and application of the Solidarity Program evaluation methodology – will not be implemented. However, these two lines of actions are fully consistent with the direction in which the Argentine government has been moving, in the conviction that they will have a major positive impact on the situation of people living in extreme poverty and on rationalizing public spending in that area. To reduce the risk, the Bank has included detailed work plans with precise benchmarks that will be continuously monitored among the conditionalities for release of the first tranche. The conditions for the second tranche require evidence in the form of ministerial directives that funds have been budgeted to implement all the initiatives. Furthermore, the technical assistance accompanying this operation will provide specific support for developing a methodology to evaluate the Solidarity Program, thereby ensuring that the necessary resources will be available and that the development of this major social policy instrument will be permanently monitored.

TABLE SHOWING THE COMPLEMENTARITY OF LOAN AR-0271 WITH OTHER BANK OPERATIONS IN ARGENTINA

Order and Name of the operation	Nature of the operation	Actions planned or under way	Compliance	Complementarity of AR-0271 with the operation question
Sector loans				
OC-AR – Social Security Reform	Sector loan to protect social spending.	The program was intended to protect actions in the fields of employment, nutrition, health care, education, social development, sanitation and the agricultural sector.	The program began in 1995 and ended in 1996 and its objectives to protect social spending were complied with.	Complementarity lies in the area of employment. The program made headway in establishing information systems on employment programs to target and identify users, boost the operating capacity of the Ministry of Labor and Social Security, and introduce mechanisms to monitor employment and training programs. AR-0271 complements these activities by establishing a decentralized network of employment offices.
OC-AR – Social Security Reform	Sector loan to support fiscal balance in the provinces by transferring the debt of the provincial retirement and pension funds to ANSES.	The program was intended to: (i) make the SIJP uniform throughout the country by applying it to the provinces; (ii) permit provincial employees to join a PFA; and (iii) boost the institutional capacity of ANSES.	The program began in 1996 and ended in 1998 and complied with its objectives.	The only area of complementarity lies in improving the management of ANSES, where AR-0271 will provide financial and accounting information system to improve institutional management, based on an integrated financial information system and publication of annual statements of account. In 961/OC-AR actions were limited to strengthening general information systems.
OC-AR – Social Security Reform	Emergency sector loan to entrench and continue the reforms under way, which have been supported by the IMF and other multilateral organizations.	The program covers many sectors. In the social area, the main conditionalities are linked to improving the methodology for indexing unmet basic needs, applying SISFAM in six social programs, consolidating all nutrition programs in a single program, preparing a report on new eligibility criteria for pensions, maintaining the budget for protected programs, presenting a bill on unemployment insurance, testing student performance, implementing consumer protection rules, and improving the regulatory framework for social programs (health care).	The program was approved in 1998 and the second tranche has been disbursed.	AR-0271 is complementary in: (i) <u>social development</u> : support for the SINTyS will continue to improve the focusing criteria introduced with UBN methodology and application of SISFAM; (ii) <u>social security</u> : the social security reform bill, which is a condition for the first tranche, seeks to redefine the rules for pension eligibility in accordance with the report presented in 1163/OC-AR; (iii) <u>modernization of the State</u> : the program of letters of commitment to citizens seeks to protect the consumers of public services, fine-tune the rules defined under the sector emergency loan.
Investment loans				
OC-AR – Social Security Reform	Investment loan to improve access, maximize the use of resources and support participation by vulnerable groups in social programs.	Increase the rates of use by vulnerable groups of education and general and specialized health care services by 10% and use of food services by 25%.	The program was approved in 1997 and began in 1998. Performance was unsatisfactory owing to the lack of budgets for 1999 and 2000.	The main complementarity of AR-0271 with this program is through: (a) the SINTyS, which will improve user identification to avoid duplication of benefits; (b) the Solidarity Program, whose evaluation methodology will improve its structure for delivering health, education and nutritional benefits to vulnerable groups.
OC-AR – Social Security Reform	Investment loan to boost the productivity and	Train 180,000 youths over three years, establish offices for employment and reemployment, and	The program was approved in August 1997. Its performance has been	AR-0271 will support the weak point of this program through pilot projects to establish decentralized employment offices (employment network) with a

Order and name of the operation	Nature of the operation	Actions planned or under way	Compliance	Complementarity of AR-0271 with the operation question
Employability of young people in the labor market	employability of poor youths in the short, medium and long terms.	offer scholarships to improve retention of young people in the job market.	classified as satisfactory although insufficient in the area of labor training and job searches.	operating and evaluation methodology.
C-AR loan to modernize administrative management of the National Public Administration	Investment loan to boost efficiency, effectiveness and economy in the public sector.	Implementation of SIDIF in 25 public agencies.	The program began in 1994 and its implementation has been slow. Compliance is satisfactory.	Implementation of SIDIF in ANSES is a basic condition for introducing an administrative, financial and accounting information system in ANSES that is required as one of the conditionalities for the first tranche of loan AR-0271.

ARGENTINA – PROGRAM TO SUPPORT THE FISCAL BALANCE AND SOCIAL MANAGEMENT (AR-0271)
MATRIX OF POLICY ACTIONS

Definition of the problem	Required action	Objective and expected impact	Required actions for the first tranche
MACROECONOMIC FRAMEWORK AND FISCAL ADJUSTMENT			
Conditions that favor recovery are necessary.	The IMF will monitor the economic policy objectives agreed upon with the country.	Improvement and maintenance of macroeconomic indicators.	The consistency of the macroeconomic framework agreed upon with the country is maintained
SOCIAL SECURITY			
The costs of the public social security system are the main component in Argentina's overall fiscal deficit. Evasion continues to rise. The elements that place pressure on spending need to be better understood and the rules for managing social security income and benefit systems need to be improved.	Establish an information system that will make it easier to find solutions for keeping the public pay-as-you go system financially balanced.	Improve the decision-making process for the management of income and spending in the public social security system.	Put into effect the legal and other legal instruments to establish a financial and accounting information system for ANSES (SIDIF) to improve the management of spending and implement the decision-making process for ANSES accounting system for income and expenditure of the public social security system periodically through accounting statements audited by independent auditors acceptable to the Bar Association
The privately-funded system does not present beneficiaries with clear information on its administrative costs and returns, which is basic for deciding whether to join a PFA. There are no incentives or clear rules for PFAs to reduce their administrative costs and increase their profitability.	Establish an information system to make criteria for selecting PFAs transparent and to enable the rules for managing and administering the privately-funded system to be changed.	Increase competition among PFAs and ensure the solvency and administrative efficiency of the privately-funded system.	Present proposals to improve the rules to improve the performance of the pension fund administrators (PFAs), establishing clear rules to ensure that decisions of the PFA are based on performance criteria such as return on investments and the administrative costs.
MODERNIZATION OF THE STATE			

Definition of the problem	Required action	Objective and expected impact	Required actions for the first tranche
The public institutions that provide social services are inefficient since: (a) public spending is high owing to the lack of flexibility of management mechanisms, which worsens the fiscal imbalance; and (b) the institutions are not committed to quality standards for services to adequately cover social requirements.	Implement a system of management by results for the public institutions that deliver services to society. Sign letters of commitment to citizens including quality and efficiency goals for public services.	Improve the efficiency and effectiveness of management by public institutions Increase the accountability and commitment of public agencies to the citizens they serve.	The Office of the Cabinet Ministers will present a plan for establishing commitment by results management by results. prepare a model letter of commitment to citizens. three agreements must be signed with public service providers to carry out the corresponding projects. At least three strategic plans must be prepared containing indicators for the pilot projects.
LABOR MARKET			
Limited flexibility in the labor market represents high costs for employers, restricts job creation and encourages growth in the informal sector.	Eliminate the clause that extends collective agreements indefinitely; decentralize collective bargaining and promote contracts on the individual company level; extend the probation period for new employees.	Adapt the market to the new demand and production profiles and create incentives for reducing informal and unstable jobs.	Passage of a Labor Reform Law which addresses the issues described earlier. The Law (No. 25.250) was passed by Congress.
	Reduce tax evasion by simplifying the mechanisms for registering contracts and modifying the system for presumptive tax assessment for small and medium-sized companies.		Presentation of the project for the design of a unified system for labor contract registration (master labor contract).
	Create a national system for training, placement, workforce reentry and assistance for the unemployed.		Presentation of the project for the design for a system to deliver placement, training, workforce reentry and services for the unemployed (network of employment).
SOCIAL DEVELOPMENT			
Proliferation of social welfare programs; lack of coordination and integration and poor cost-effectiveness of activities.	Establish a system to identify the beneficiaries of social welfare programs that will improve integration, avoid duplication of spending and efforts and improve cost-effectiveness.	Rationalize existing resources and increase the coverage and effectiveness of social welfare programs by targeting this aid to families living in extreme poverty.	Presentation of regulations to certify progress in implementing national social programs. have direct beneficiaries. a provision has been made in the 2001 budget to cover

Definition of the problem	Required action	Objective and expected impact	Required actions for the second tranche
	cost-effectiveness.		those programs, as a framework for establishing general guidelines for coordination and integration. Presentation of a detailed plan, including action evaluation indicators, substantiated budget, make it possible to approve the second tranche with the Tax and Social Identification
Lack of suitable instruments for evaluating the impact of poverty-alleviation and social welfare strategies.	Establish criteria for evaluating special poverty-alleviation and social welfare programs.	Create instruments to provide information on the impact of poverty-alleviation and social welfare programs, while simultaneously planning new strategies for those programs, with suitable evaluation indicators and targeting instruments.	Presentation of a work plan for the formulation of the methodology for evaluating the Social Welfare Program. The plan will include activities, goals, and budget, so that the methodology is ready for implementation in the second tranche. Implementation of the work plan will be under an administrative agreement issued by the Ministry of Economic Development and Environment

**TABLE OF BENCHMARKS FOR EVALUATING COMPLIANCE WITH PROGRAM
CONDITIONALITIES
SOCIAL SECURITY COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANCHE
<p>1. 1st. tranche: Implement the legislation and other legal instruments to create the ANSES financial and accounting administration system (SIDIF) that will help improve management of spending and implement the decision to periodically disclose ANSES accounting statements on income and expenditures in the public social security system/ The accounting statements must be audited by independent, specialized auditors acceptable to the Bank.</p> <p>2nd. Tranche: Implement the ANSES financial and accounting administration system.</p>	1.1 Prepare the proposal for implementation of the financial information system (SIDIF) in ANSES.	Proposal prepared and presented to the satisfaction of the Bank.	
	1.2 Draft letter of agreement between Ministry of Economic Affairs and ANSES for implementation of SIDIF in ANSES.	Presentation to Bank of letter of agreement signed by Ministry of Economic Affairs and ANSES authorities, with proposal for implementation of SIDIF in ANSES attached as annex.	
	1.3 Prepare and present report of Ministry of Economic Affairs on results of SIDIF implementation in ANSES.	Report indicates that results of SIDIF implementation were satisfactory.	
	1.4 Devise and implement an actuarial demographic model for SIJP and presentation of draft legislation on its systematic use.	Actuarial demographic model prepared, tested, and validated.	
		Legislation to establish systematic use of actuarial demographic model.	
	1.5 Prepare and implement model for macroeconomic consistency of Argentine social security system.	Model for macroeconomic consistency prepared, tested, and validated.	
		Legislation for systematic use of model for macroeconomic consistency.	

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
SOCIAL SECURITY COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANC
<p>2. 1st. tranche: Present proposals to the Bank for rules to improve the information system on PFA performance, establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.</p> <p>2nd.tranche: Give effect to the rules to improve the information system on the performance of PFAs, establishing incentives to ensure that decisions to join a PFA are based on performance criteria such as returns on investments and the size of administrative costs.</p>	2.1 Present current rules indicating the data and format for their presentation that PFAs must disclose and the media they can use.	Rules presented.	
	2.2 Conduct study on criteria for PFA selection on the part of members, based on rules referred to in activity 2.1.	Study conducted and findings presented.	
	2.3 Present rules, based on findings of study referred to in activity 2.2, to the satisfaction of the Bank, stipulating mandatory PFA disclosure of information in the media agreed upon and delivery of the information to system users at the intervals agreed upon.	Presentation of rules to the satisfaction of the Bank.	
		Consistency of information in exit document in the decision-making capacity of PFA users, reducing the number of undecided users, and reformulation of the exit document.	
		Final version and implementation of rules reformulated in accordance with test results and studies conducted.	
	2.4 Conduct study on PFA competitiveness to identify factors that hinder competition and better management of their administrative costs and performance.	Instruments prepared and studies conducted.	
		Presentation of final results of study for use in activity 2.3.	
	2.5 Study on pricing of disability and survivor's insurance premiums.	Instruments prepared and study conducted.	
		Final results of study.	
		Preparation and implementation of rules that include redefinition of insurance pricing and premiums offered by the PFA market.	

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
SOCIAL SECURITY COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	QT1
3. Conduct studies and prepare draft legislation or proposed activities to improve the social security system.	3.1 Conduct study conducted on retirement and pensions under special regimes and draft legislation.	Diagnostic study on current situation of special pension regimes.	
		Draft legislation to eliminate differences based on changes in special regimes.	
	3.2 Conduct study conducted on retirement and pensions under differential regimes and draft legislation.	Diagnostic study on current situation of differential pension regimes.	
		Draft legislation to eliminate differences based on changes in differential regimes.	
	3.3 Conduct study for review of criteria for readjustment of retirement and pensions under the public social security system.	Research on trends in benefit value and simulation of alternatives given various inflation rates.	
		Proposed legislation for automatic readjustment of benefits based on findings.	
	3.4 Conduct study to evaluate noncontributory and welfare benefits with a view to rationalizing the future financial coverage of the new universal benefit proposed in the Social Security Reform Act.	Diagnostic study on situation of noncontributory and welfare benefits.	
		Proposed legislation to rationalize noncontributory and welfare benefits that includes new universal benefit proposed in Social Security Reform Act.	

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
STATE MODERNIZATION COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANC
<p>1. 1st. tranche: The Office of the Cabinet of Ministers will present a model for establishing commitments for management by results and prepare a model letter of commitment to citizens. At least three agreements must be signed with public service providers to carry out the corresponding pilot projects. At least three complete strategic plans must be presented, containing indicators and goals for the pilot projects.</p> <p>2nd. tranche: Presentation of reports evaluating the management commitments and letters of commitment in the pilot projects and rules for applying them in other federal public agencies. Presentation of signed management commitments and letters of commitment in one decentralized area in ANSES, one PROMIN unit and one unified employment services office of the MTSS. In the case of the MTSS, a conceptual model will be designed for applying the letter of commitment and management by results in future to the entire network of decentralized public and private employment offices of the MTEyFRH.</p>	1.1 Prepare the model for management commitments.	<p>Presentation to the Bank of the model for management commitments to the Bank's satisfaction and the decision by the State Modernization Department approving the model.</p> <p>Presentation to the Bank of the three complete strategic plans of the agencies, with indicators and goals.</p>	
	1.2 Prepare the model for letters of commitment to citizens.	Presentation of the model letters of commitment to the Bank's satisfaction and the decision by the State Modernization Department approving the model.	
	1.3 Sign agreements to implement the management commitments in three federal public agencies.	Presentation of copies of the signed agreements to the Bank.	
	1.4 Sign agreements to implement letters of commitment in three federal public agencies.	Presentation of copies of the signed agreements to the Bank.	
	1.5 Present a report evaluating the management commitment model, based on the results of the pilot projects in the first tranche.		
	1.6 Present a report evaluating the model letters of commitment, based on the results of the pilot projects in the first tranche.		
	1.7 Present rules for applying the management commitments to other federal public agencies.		

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
STATE MODERNIZATION COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1 st TRANCHE	QT 1
	1.8 Present rules for extension of the letters of commitment with citizens to other government agencies.			
	1.9 Implement experience with performance-based management and letters of commitment with citizens in decentralized ANSES unit and one PROMIN unit.	Presentation to the Bank of the strategic and operating plans.		
		Presentation of report on reengineering processes for resource management systems.		
		Presentation of report on reengineering processes for alternative systems.		
		Commitments and performance-based management agreements signed with those institutions.		
		Agreement on management commitment program signed.		
		Installation and implementation of the management monitoring and oversight system.		
		Agreements for cooperation with agencies signed.		
		Implementation of plans with established standards and complaint systems.		
		Presentation of final letters of commitment and annual improvement plans for the institutions.		
		Preliminary evaluation of the experience (six months after startup).		

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
LABOR MARKET COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANCHE	QTI
1. Master system for contract registration operating satisfactorily (Master Labor Contract Register).	1.1 Produce a technical and institutional plan for a simplified contract registration system (information system, financial system and institutional framework).	Technical report presented.		
	1.2 Implement the data capture system, sign agreements to establish windows for data capture, and operate the master database and the plan for distributing information to labor and social security agencies.	Information system operating, agreements signed, and master database in operation.		
	1.3 Design the interface between the databases of the labor and social security agencies.	Technical report presented.		
	1.4 Prepare Ministry of Labor resolutions on administration of the database and its linkage to labor and social security agencies.	Resolutions issued and agreements signed with labor and social security agencies.		
	1.5 Establish a system for settlement of labor contributions and benefits and the system for the consolidation and contribution of funds to labor agencies.	Systems for settlement, conciliation and distribution in operation.		

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
LABOR MARKET COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANCHE	QTI
2. Implement the employment offices for the unified system for registering labor contracts (master labor contract register) in at least four jurisdictions.	2.1 Presentation of employment office network design.	Technical report presented.		
	2.2 Establishment of central unit, staff training, and planning of regional network structure.	Working team assigned, training conducted and regions selected		
	2.3 Public information, call for proposals, receipt of proposals, selection of offices to make up network and signature of agreements.	Four regional offices selected and agreements signed		
	2.4 Employment offices equipped and facilities outfitted.	Facilities outfitted and equipment installed and operational		
	2.5 Technical studies conducted and management software developed for Employment Offices for computer communications services, registration of institutions, employment-training interface, and training monitoring.	Technical studies completed and software developed		
	2.6 Regional Employment Offices integrated and teams trained.	Working team assigned and training conducted		
	2.7 Public information campaign launched through print, graphic, radio and television media.	Ongoing dissemination in four regions		
	2.8 Advisory Boards on Training and Employment agreed upon and appointed.	Boards established and in operation		
	2.9 Operation, monitoring and evaluation of Employment Offices.	Network in operation and monitoring and evaluation report presented		

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
LABOR MARKET COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	QT1
3. Conduct studies to support implementation of federal mediation and arbitration system.	3.1 Criteria established for organization, institution and legal capacity of agency to administer the system.	Technical report presented.	
	3.2 Mechanisms designed for system to work in various local jurisdictions, including a proposal for basic design of conventional or regulatory instruments to document and regulate these relations.	Report presented with respective specific content	
	3.3 Identification of negotiation and conflict resolution processes in which the agency must participate according to the various negotiation forums established in Law 25.250.	Report presented with respective specific content	
	3.4 Types of services, arrangements and procedures established for each alternative service provided by agency.	Report presented with respective specific content	

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
SOCIAL DEVELOPMENT COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANCHE	QTI
1. SINTyS operational in terms of responding to consultations by government agencies on beneficiary eligibility.	1.1 Work plan for implementation of SINTyS presented.	Work plan presented.		
	1.2 Data base on magnetic media for at least 70% of national social programs with direct beneficiaries and related data bases available and beneficiaries identified with single code.	Data base available and beneficiaries identified with single code (national identification papers).		
	1.3 Conditions for eligibility and incompatibility defined according to current legislation to opt for national social program benefits.	Eligibility and incompatibility matrixes defined and presented.		
	1.4 Data bases on national social programs and SINTyS-related data base incorporated, and procedures for their updating implemented.	Data base available on screen in SINTyS and updating procedures being followed.		
	1.5 Information analysis on identification number and data for national social program beneficiaries.	Report presented with basic data for at least 70% of national programs with direct beneficiaries.		
	1.6 Verification of incompatibility of current national social program beneficiaries and ex ante verification of applicants to those programs, through cross-checking of data based to detect incompatibility and assess the impact of any irregularities detected, at the request of agencies administering national social programs.	Report presented on incompatibility and impact assessment, with benefits achieved.		

**TABLE OF BENCHMARKS FOR MONITORING AND EVALUATING PROGRAM
CONDITIONALITIES
SOCIAL DEVELOPMENT COMPONENT**

POLICY ACTIONS	ACTIVITIES	BENCHMARKS	1st TRANCHE	QTI
2. Develop methodology for evaluation of the Solidarity Program and make ready for use.	2.1 Hire technical team responsible for evaluation.	Technical team to devise methodology for evaluation of baseline data hired.		
	2.2 Present work plan for development of the evaluation methodology.	Work plan presented.		
	2.3 Design evaluation instruments (representative sample, baseline data survey, impact analysis, etc.).	Terms of reference for evaluation instruments presented.		
	2.4 Develop instruments for evaluation and planning for field work.	Progress report indicating development of evaluation instruments presented.		
	2.5 Conduct field work for baseline survey.	Baseline survey conducted.		
	2.6 Process findings of baseline survey and review for consistency and validity.	Report reviewing baseline survey findings presented.		
	2.7 Prepare final report with evaluation methodology ready for use.	Evaluation methodology ready for use presented.		

Buenos Aires, 2 November 2000

Mr. Enrique Iglesias
President
Inter-American Development Bank
Washington, D.C.

Dear Mr. Iglesias:

This policy letter describes the economic reform program launched by this government in December 1999 as well as specific measures to entrench the reforms already begun. On this occasion, the Argentine government is requesting financial support from the Inter-American Development Bank to implement the structural reforms described in the following paragraphs, while avoiding any adverse effects on the public deficit financing profile.

1. Recent economic developments

In the 1990s, the Argentine economy followed the path of growth with price stability. This was chiefly due to the macroeconomic discipline demanded by the convertibility regime, modernization of the productive structure in response to growth in investments, structural reforms and the consolidation of Argentine institutions and democracy.

However, significant imbalances persist, which became clear in the second half of the decade and slowed economic growth. The fiscal deficit grew steadily after 1997, and total provincial public debt increased over the decade to the point where it now represents about 49% of GDP. The current balance of payments account has also presented imbalances, especially in the second half of the last decade as a consequence of the growing weight of foreign debt interest, deterioration in the terms of trade, higher imports and a generalized increase in the credit risk of emerging markets stemming from difficult international circumstances, including the crises in Asia, Russia and Brazil.

As a result, the contraction in the economy could clearly be seen in the second half of 1998, with sharp drops in production, mainly in industry. The situation worsened in the first half of 1999 as a consequence of the drop in demand by Brazil and private sector financial restrictions. Although the year ended with signs of recovery (GDP in the last quarter of 1999 was similar to the figure one year earlier), real GDP shrank by 3.2% during 1999. Public finances also deteriorated considerably in 1999, mainly owing to lower tax compliance, higher interest on the public debt, and growth in primary spending. As a result and despite higher-than-expected extraordinary income (sale of shares in the National Petroleum Corporation and cellular telephone concessions), the public deficit in 1999 (cash base) was 85% higher than in 1998 and 40% over the goal agreed on with the International Monetary Fund. The deficit was 2.3% of GDP, compared to 1.3% in 1998.

Moreover, it should be noted that provincial public finances deteriorated as well. In 1999, the consolidated deficit of the provincial governments was 1.3% of GDP, compared to 0.8% in 1998. Total provincial debt has grown considerably in recent years, topping the equivalent of 7% of GDP in 1999. In some provinces that borrowed heavily, debt service is currently more than 30% of income.

Despite the situation, the banking system maintained the solid position it has achieved in recent years, particularly after the so-called 'tequila effect'. Deposits in the banking system continued to grow in 1999, although more slowly than in previous years.

2. Economic measures taken by the government

The new government took office in December 1999 in the macroeconomic context described above. From the outset it was aware of the difficulties and challenges that lay ahead and therefore the first steps it took were to curb growth in public spending and reduce the deficit, undertaking to keep it within the limits established in the Fiscal Accountability Act.

Apart from control over the public deficit, the Argentine government made it a priority to lay the groundwork for a sustained economic recovery, which, in turn, is necessary to bring about a steady reduction in unemployment and poverty, while preserving price stability. To do so, it is necessary to increase domestic savings so that growth in investment does not imply growth in the external debt, and so that the international competitiveness of Argentine products can be improved in the context of the convertibility regime. This means that costs and the prices of inputs and services must be reduced, productivity must be raised and an array of structural reforms must be made in areas such as the labor market, education and health care, the regulatory framework for public services, and elsewhere.

To put the fiscal accounts on a sound footing, the new government modified its initial budget proposal, by introducing selective cuts in spending and sought tax reform to increase revenues from progressive taxes (personal property tax and gains tax). The federal and provincial governments agreed on a federal commitment whereby transfers to the provinces have been established and made predictable for the period 2000-2002. A new tax-sharing arrangement will come into effect at the end of that period.

As for debt management, the government will work to soften and extend the repayment profile, hold costs to the minimum through active management of liabilities, and gradually reduce the debt/GDP ratio.

In May of this year the government took an additional series of steps to strengthen fiscal solvency, through cutbacks in spending and increases in the level of economic activity and competitiveness. The measures include a reduction in public salaries, a reduction in special retirements and restructuring of public sector agencies plus a further series of structural reforms. The structural reforms include the adoption of a decree deregulating social works, a

deepening of the December 1999 Federal Commitment through a new Federal Fiscal Agreement, presentation to congress of a bill to reform the social security system, definition of a framework to deregulate telecommunications under a decree, and the introduction of a new mechanism for financing public works, under a bill to create the Infrastructure Development Trust Fund.

Just a few days ago, the government took a series of measures we consider essential to ensure fiscal solvency and increase investment, which will drive economic growth and consequently reduce unemployment.

Among the first measures is passage by Congress of the Anti-Evasion Act and Economic Emergency Act. These instruments are key for us to make more decisive progress towards our long-term fiscal objectives: to reduce the tax burden of those who pay their taxes, through the fight against evasion and improved efficiency in public spending.

With regard to economic growth, as we all know, since Argentina needs investments it is crucial that the productive capacity of the country be increased. In accordance with this goal, a series of activities have been announced, the purpose of which is to stimulate productive investment by decreasing and/or eliminating taxes that hinder the process. All of these measures are consistent with the fiscal deficit stipulated in the draft Budget Act and the provisions of the Fiscal Accountability Act.

In addition to these measures is efficient implementation of the Federal Infrastructure and Electrical Power Plans, elimination of obstacles to investment that persist in special cases, such as Aerolíneas Argentinas and the Loma de la Lata gas pipeline.

3. Sector reforms

The present administration has decided to continue the reform program begun in the last decade and to promote new reforms.

It presented a bill on labor reform to congress, which was enacted as Law 25250. That law promotes adaptation of the labor market to new demand and production profiles and creates incentives to reduce informal and unstable jobs. It provides for the gradual elimination of the 'ultra-activity' clause which extends collective contracts indefinitely, decentralization of contract negotiations, legal predominance of company contracts over sector contracts, creation of arbitration and mediation services, extension of the probation period for new employees and measures to reduce informal jobs in the labor market by simplifying the procedures for contract registration.

To improve the delivery of public services, particularly of privatized services, in the areas of better efficiency, consumer protection and more competition, the government has established the Competition and Consumer Protection Agency, approved a decree regulating the anti-monopoly act, presented a framework law for federal regulatory agencies to congress and issued a decree defining a framework for deregulation of the

telecommunications industry which invites new investors to participate in the market with a view to modernizing technology and lowering prices through increased competition. It also issued a decree deregulating Social Works, which will increase the number of options available in selecting service providers and restructure the Solidarity Redistribution Fund, as some of the most relevant measures.

In the field of infrastructure, the government presented a bill to establish an Infrastructure Development Trust Fund, which guarantees financing for an extensive federal infrastructure plan. The plan expects each province to establish an efficient order of priority for its public works and promotes private-sector participation by establishing a federal system for the design, construction, operation and financing of economic and social infrastructure to be undertaken by the federal and provincial governments. Internal demand will be promoted in order to reactivate the multiplier effect of the infrastructure sector on the rest of the economy and, in particular, to turn it into one of the main tools for the recovery of employment levels.

Stage two of reform of the State is designed principally to eliminate unproductive bureaucracy by allowing public managers more flexibility in administering resources to accomplish the objectives and mission of the institutions for which they work. From the standpoint of the users of services, mechanisms will be created for citizen participation in verifying the quality of the public services they receive. In August of this year, the government prepared a national plan for modernization of the State, intended to create an efficient and effective public administration that provides citizens with quality services, based on flexible institutions working on the basis of management by results.

In the field of social security, the executive branch presented a bill to congress to reform Law 24241, which regulates the integrated pensions and benefits system. Among other things, the bill calls for:

- The creation of noncontributory pensions to expand coverage by establishing a new benefit for people who are not covered under the present system.
- More equitable treatment of men and women, since the retirement age for men is 65, while it is 60 for women.
- In the privately funded system, the mechanism for assigning undecided workers will be modified in order to increase transparency and competitiveness.
- The Office of the Superintendent of PFAs will be required to submit mergers that increase concentration in the industry to the National Competition Protection Board.
- A sustained effort will be made by the Office of the Superintendent of PFAs to publish information for members about the costs of the system.

In the social area, the government intends to broaden the coverage of existing programs by focusing more closely on the target population. The government attaches priority to

reducing poverty and its transmission from generation to generation. Social spending has been spared in the budget cuts and funds are allocated in the 2001 budget for the Solidarity Program. The Cabinet Office has been authorized to consolidate social programs.

The Solidarity Program is a comprehensive program to combat social exclusion. The initiative seeks to ensure that beneficiaries have access to health care, education and adequate nutrition. The target population is urban families living in indigence or extreme poverty. One innovative aspect of this undertaking is that beneficiaries also assume commitments. The aim is to eliminate possible fraud associated with programs that subsidize demand.

The project is an ambitious one, since it involves actions in three different jurisdictions – the Ministry of Social Development and Environment, the Ministry of Health and the Ministry of Education – which is a challenge for management, given the extent of inter-ministerial coordination that the plan demands.

Consolidation of social programs is part of a broader working program for a complete restructuring of the tools for social analysis and a new approach to defining social policies. The program includes tasks to be carried out by the national tax and social identification system (SINTyS).

The need to optimize the government's tools for addressing social problems stems largely from the existing imbalances between social demands, fiscal restrictions, and the relatively poor efficiency of the host of social programs that exist today. The proposal to group and consolidate programs involves all national programs that are operative and receive domestic and/or international financing.

Given this context, in the first stage, the Social Cabinet prepared a proposal to group social programs into six thematic areas, which unified 71 programs into 18..

Use of SINTyS is compulsory in all federal programs, and the results obtained by cross-referencing information will translate into savings from better targeting, a reduction in overlapping and elimination of ineligible beneficiaries.

4. Support from the Inter-American Development Bank

The general purpose of the program to support the fiscal balance and social management (AR-0271) is to help strengthen the institutional aspects of the different reforms undertaken by the national government to work toward fiscal solvency and make social development policies more effective. It will include policy actions to reduce fiscal costs and improve the management of national social programs.

In function of these concepts, the program will include conditionalities regarding reform of the social security system, labor reform, modernization of the State and social development.

The government's actions in each of these areas are fundamental for developing and implementing public policies to solve institutional problems and achieve adequate control over public spending and a return to sustained growth.

The results of the analyses indicate that as they are operating at present, the above-mentioned areas contribute to the public deficit and to shortcomings in the management of public policies as follows:

- Evasion and unnecessary costs in the public social security system.
- Absence of appropriate information on the privately funded system, which makes it difficult for people to decide which PFA to join based on its comparative advantages.
- Poor efficiency in the delivery of social services, owing to rigid management mechanisms, coupled with scant commitment to serving the public.
- An increase in informal employment.
- A host of social development programs, marked by the absence of coordination, duplication of efforts, fragmentation and discretionality.
- Difficulties in evaluating actions to combat poverty and promote social development owing to the lack of suitable tools.

On the basis of the problems identified in the selected areas, different public policies have been formulated to be carried out by the national government, which can be incorporated into the program agreed upon with the Inter-American Development Bank.

In the public social security sector, an administrative, financial and accounting system will be established to improve the mechanisms for collecting contributions and granting benefits, in order to control spending in the public pay-as-you-go system. In the private pension system the government intends to improve transparency and competition among PFAs, by developing information systems to provide more and better information for users.

As for the modernization of public management, the government is determined to build a more practical, efficient and transparent State, based on management by results in the different parts of the federal public service, in order to improve efficiency and effectiveness. Also, the commitment and accountability of government institutions to the public will be improved by introducing letters of commitment to citizens.

The resolution of problems in the labor market is one of the government's main concerns. Passage of Law 25250 on labor reform is a major step toward setting the stage for the recovery of employment levels. It is also intended to reduce tax evasion and informal and unstable employment by simplifying the mechanisms for registering contracts, promoting intermediation between job seekers and employers through the creation of a national

system of employment offices to provide training and assistance for the unemployed and help them to find new jobs.

Last, there are two main objectives for social development policy management. The first is to rationalize existing resources and improve the coverage and effectiveness of national social programs by introducing a system to identify beneficiaries that will prevent duplication of spending while promoting better integration of those programs.

The second is to introduce comprehensive strategies to combat poverty and social exclusion by coordinating social development, education and health care policies, complemented by the development of criteria for program evaluation. This will provide tools for monitoring, assessing the impact, and improving the focus of public actions in this field.

The support of the Inter-American Development Bank and other international lending agencies for the major changes being undertaken by the Argentine government will help to strengthen the credibility of the existing policy framework. Funds from multilateral agencies will also make it possible to consolidate the country's short- and medium-term financial program to improve the profile and make-up of the country's public debt.

Sincerely yours,

José Luis Machinea
Minister of Economic Affairs